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INVESTOR RELATIONS

update

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THE YIN AND YANG OF
SHAREHOLDER IDENTIFICATION



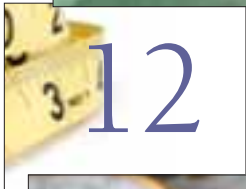
**Nature vs. Nature:
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The SEC Beat



**ASK THE RESEARCHERS
Insight on the
Questions IROs Are
Asking**



On the Move

I am thrilled to join NIRI as your new president and CEO. The Search Committee of your board of directors conducted an extremely deliberate and thorough search process, and I am honored to have been selected to represent you, the largest professional investor relations organization in the world.

I look forward to bringing new insight and a fresh perspective to the NIRI staff. I believe that my previous work as a successful association executive in the derivatives side of the financial markets has prepared me well to add value both operationally and programmatically. A changing global investment marketplace, evolving investment vehicles, new sources of financial capital, and the many more opportunities that investors must evaluate when making investment decisions are all areas I have been dealing with for many years. These are a sampling of the same issues that IR professionals also encounter. The requirement of a strong partner that provides timely information, valuable research, and helps to give you the knowledge to be the best is the environment I have come from and will bring to NIRI.

NIRI is ready for a permanent CEO to assist in moving the organization forward. This message has come through loudly and clearly from the board as well as from those of you I have already met in person, over the phone or via e-mail. In the few weeks since joining NIRI, I've reached out to a number of NIRI's key constituencies including chapter leadership, several chapters, service providers, sister associations, etc. But I have much more work to do here, and I look forward to meeting as many of you as quickly as possible at chapter meetings, the NIRI 2008 Annual Conference in San Diego and other NIRI events throughout the country in the coming months.

These are challenging times for the economy, public companies, IROs, IR counselors and IR service providers. Recognizing this, it is incumbent on NIRI, now more than ever, to provide you with the products and services that best meet your needs. As we move forward over the next several months, I will work with the NIRI staff and board to conduct a "strategic audit" of our offerings — an audit that will include input from the current and incoming NIRI board members, staff, chapter leaders and all member types. We will look at every NIRI product and service to ensure that we are maximizing the value you receive for your membership dues.

Thank you to those of you who have proactively contacted me in the short time I've been on board. I want to encourage all of you to reach out to me with any advice, praise, criticism, etc. The NIRI staff is here to meet your needs, and the best way for us to understand those needs is for you to contact us directly. Please feel free to call or drop me an e-mail with your thoughts.



Jeff Morgan

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Tim Quast



Names vs. Nature

THE YIN AND YANG OF SHAREHOLDER IDENTIFICATION

BY TIM QUAST

What's in a name? If you're trying to answer the question in the context of "who owns our stock," names mean quite a lot. There are distinctions in the response: there is one answer to the "name" question relative to share ownership contests, mergers and acquisitions, and your shareholder meetings. And, there is a very different answer relative to how stocks *actually trade in the new national market systems environment (NMS)*.

You may well ask upon reading this: "What does trading have to do with shareholder identification?" Often, the answer is "Much more than we would think." For example, what if high-frequency traders control the bulk of real liquidity? The traders' capacity to set market prices, and therefore affect valuation models in mergers and acquisitions, could be crucial to whether a company's management ultimately looks brilliant or inept.

To put this in context, think about how the financial media seems to delight in skewering apparent bumbling where the share prices of target companies plunge in the wake of sealed deals. Or conversely, think about how the golden guys and gals of M&A often seem so ennobled because of gilded stock valuations of targets after final agreements ... and yet often, it is the same clique of bankers and lawyers behind transactions labeled both brilliant and dull. Are they skilled in one case and somehow inept in another? Maybe.

Or maybe it's a partial failure on the part of investor relations professionals to fully comprehend market structure and apply this knowledge to financial transactions. I'm not suggesting that all distended deal prices derive from trading tactics that

escape the purview of classic shareholder identification. And most important, tightening 13F reporting windows for institutions would go a long way toward constraining the power of the arbitragers to separate equities from underlying business values (arbs do act as checks and balances, though).

But if these market forces are so large and influential in how our shares trade, how do we get a handle on them? Let's begin by narrowing it down — and assembling a couple of tools to build our case:

1. In keeping with the building analogy, think of *market structure* as your mortarboard. If you've slogged through my commentary on this topic before, you know I preach *market structure* as a form of modern investor relations gospel. Clinically, it is about the type, size and distribution of participants in your equity market. In plain English, it's the nature of the money behind your trading. It becomes surprisingly easy to see the various shades of participants once you've studied market structure.

2. The second powerful tool in your portfolio — the trowel for your mortarboard — is called the “prime broker.” Although tracing the interplay between “primes” and other forces in your market is not the only part of market structure, it certainly is a key part. Prime brokers are broker-dealers providing trading, record-keeping and capital to their clients. Some serve mostly small fundamental investors; other primes provide services mainly for very large institutions running asset-allocation models.

It is essential for the IRO to understand more about how prime brokers work with institutional investors. Primes at their core are about providing money to help people *buy and sell*. Consider it a form of banking. The biggest primes comprise some of the largest investment banks in the world: Morgan Stanley, Goldman Sachs, UBS, JP Morgan, Lehman Brothers, Credit Suisse, Deutsche Bank, Merrill Lynch, Bear Stearns, and Bank of America.

The forces are trowel-like in that they sweep aside other forces and/or alter their behavior. This is why it's incorrect to suppose that Fidelity alone, or Wellington, or Vanguard, or Southeastern Management, or T. Rowe Price are necessarily the real determinants of valuation or changes in price. If you understand the symbiosis between buy-side and sell-side in the shareholder-identification equation, you will have a means to test the accuracy of conventional surveillance — and a view of what *kind* of money drives share-price.

Prime brokers provide crucial services to institutional investors: They employ and deploy tremendous capital resources (recent massive writeoffs have reduced the capacity of some primes to provide capital services, and it shows up in trading volumes, by the way). The primes have the capacity necessary to harbor shares in accounts as both brokers and dealers, thus disguising them from identification; they have strong relationships with the U.S. Federal Reserve System as primary dealers; and, their enormous investments in technology platforms and trading systems augment institutional strategies that serve to insulate the buy-side from risk.

Who takes the hit when things go bad? Experience tells us that the good and dedicated prime broker will preserve future cash-generating relationships by shouldering and sharing the burdens of marketplace ... *unpleasantness*, let's call it.

Expand Your Relationship with Sell-Siders

This is a big reason why I believe IROs need to expand their relationships with sell-side firms, going beyond equity research to reach the people crafting more complicated solutions for the buy-side. Whether we like it or not, that's a marketplace reality

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today. If we as IR professionals are going to continue to exercise influence in the capital markets, we need to be able to draw lines and hold the sell-side more accountable. (In a future article I will explain what happens around upgrades and downgrades and how this applies to these prime brokerage relationships.)

We've covered lots of ground here and this is a big topic, a tectonic shift really, in how we as IR pros need to think to adapt to market changes. Let's take one example: The association between "rebate traders" (such as Octeg and their peers, and including certain retail desks such as Ameritrade) and the prime brokers helping institutions to take profits in one discipline and shift shares to other disciplines.



There aren't neat lines and equations to define every step in the process. But we'll offer this from our long-term observations and from the data generated by our trading intelligence systems.

1. Rebate traders make money by furnishing shares to market centers, which pay a fraction of a cent per share to have this supply available for trading. (For example, the Chicago Exchange pays \$0.36 per hundred shares, which at nearly four-tenths of a cent per share is one of the higher payouts rates.)

2. Sophisticated traders (such as Octeg) tap into liquidity pools with software-driven systems and feed continuous liquidity to market centers, perhaps even playing the role of the "plant bidder" in a public auction (that's the "planted" person who bids up the price of artwork with no intention of ever buying).

3. This causes profit-takers to sell — increasing liquidity — but more important, it creates broad ranges of prices for small trades, which is requisite in Regulation NMS markets where traders can't continue to work an order at one price when a better one is available elsewhere. Primes with vast institutional and retail shares in their accounts can also furnish these to the Octegs with systems and databases specifically designed for rapidly introducing shares and re-pricing them.

4. At the end of such trading days — often around options expiration dates when risk management methodologies are being reset — volumes can be enormous and intraday spreads very large. Yet it is typical for closing prices to reflect little change — causing pundits to say expirations are "largely non-events" when the exact opposite is true.

5. Hidden in this vast machinery on a day with 100 million traded shares in one issue we will find: (a) value portfolios at Fidelity and Wellington taking profits through one set of primes and positioning capital with other primes to feed into algorithms for growth portfolios, and perhaps even making some money furnishing shares; (b) Octeg and the rebate traders making money; (c) exchanges making money; (d) prime brokers making small amounts of income in various ways, such as record keeping, sweep accounts, short-term lending, trade execution, domiciling shares in accounts that'll never show up in 13Fs, and more. And very shortly we will see certain primes ratcheting up algorithmic order flow as growth execution begins. (This happens differently than with value positions, because the application of capital by primes is intended to foster the desired outcome — that is, growth through increasing the demand on available supply.)

While all is going on, the investor relations professional — as well as her senior corporate management is asking: "*What happened in the market today?*"

And what about the *real shares* that moved during that 100-million-volume day? You may be surprised to know these comprised perhaps only two or three million shares. What if those shares didn't move successfully and landed in statistical arbitrage portfolios where they become leverage for returns in commodities? Yes, you can see that happening too, if you watch your mortarboard and keep an eye on the trowel.

Important to keep in focus in 2008: Shareholder identification as it applies to trading must involve our analogy of the mortarboard of market structure and the trowel of prime brokerage. IRU

Tim Quast, a NIRI member since 1996 and a fifteen-year IR veteran, is founder and managing director of ModernIR.com, which parses and categorizes over 1.5 billion shares per week with its trading-intelligence systems. Tim will be presenting on market structure at NIRI chapter meetings in Denver (Rocky Mountain Chapter) on February 12, Los Angeles on March 11 and North Carolina (Triangle Chapter) on April 9. Send your comments and questions to: timquast@modernir.com.

The Exchanges in the Electronic Age

BY CAROL METZKER

Last autumn, John Haudrich, senior director of investor relations at Smurfit-Stone Container Corporation, discussed some of his company's goals with its relationship manager at NASDAQ. One of the goals was to expand awareness of the mid-cap packaging company beyond their core investors to other investors and analysts who were following the industrial sector but had not been known to pay attention to Smurfit, said IRO Haudrich.

Working with its relationship manager, the company signed up for — at a cost of roughly \$5,000, according to Haudrich — NASDAQ's "Signature CEO Series," a videotaped and webcast ten-minute interview of its CEO with a journalist at NASDAQ's Marketsite in New York's Times Square. The video's content included Chairman and CEO Patrick Moore's discussion of what was new at the company and plans for the future. The staff at Smurfit e-mailed the video to shareholders and targeted investors. Similarly, although by invitation after the company expressed interest and with no extra cost above listing fees, Smurfit managers rang the opening bell of NASDAQ on October 11, 2007. They posted the videotape of the event on the company's Web site and used the event for publicity. Smurfit is one instance of a company reaping benefits for its IR program by utilizing the services offered by its exchange.

Opportunities for getting in front of investors, media and the general public is one of the benefits of listing with NYSE Euronext, as well. Len Griehs, vice president of investor relations at the well-known large-cap brand marketer Campbell Soup Company, said that ringing the opening and closing bells of the New York Stock Exchange are just two examples of ways the exchange provided visibility for his company.

In 2004, Campbell Soup rang the opening bell on the 50th anniversary of its listing on the NYSE, and on January 10, 2008, the president of Campbell's Pepperidge Farm business rang the closing bell. The exchange has also provided meeting rooms for an after-hours reception with analysts and a company board meeting, during which the company took photographs to include in its annual report.

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The association of the company with NYSE goes beyond visibility to credibility, according to Griehs. “There is prestige being associated with the New York Stock Exchange,” he said. “[Your company’s listing] sends a message that you’re an established company.”

Digital Solutions and More from the Exchanges

In this era of broadening technology applications, electronic trading and rapid digital communication, public companies are taking advantage of growing numbers of digital solutions for developing visibility, and for information-gathering and dissemination offered by NASDAQ and NYSE Euronext. At the same time, listed companies are making the best use of the finite “high touch” — personal or human services that involve experience, relationships and complex thought processes — offered by the exchanges’ experts.

As the role and number of specialists is dwindling and the markets are consolidating (NYSE acquired Euronext last April, NASDAQ made deals to buy the Philadelphia and Boston Exchanges last year, and at the time of press NASDAQ was continuing its plans to combine with Stockholm-based OMX and Borse Dubai, and NYSE Euronext had just entered into an agreement to acquire the American Stock Exchange), the services offered by NASDAQ and NYSE continue to evolve to provide value to corporate IR programs.

NASDAQ’s High Tech Solutions

NASDAQ offers a wide variety of products and services, some covered under the cost of listing fees and others available to any public company at an additional charge. Many of the added products and services are offered by service providers that were



John Haudrich, senior director of investor relations and Patrick Moore, Chairman and CEO of Smurfit-Stone Container Corporation in front of NASDAQ offices.



Bruce Aust

acquired relatively recently. “NASDAQ is a global player that continues to grow its own business which should benefit our listed companies,” said Bruce Aust, executive vice president of NASDAQ’s corporate client group.

Covered under listing fees are access to NASDAQ Online, the NASDAQ Market Intelligence Desk® and a NASDAQ relationship manager. NASDAQ Online, the exchange’s Web site for its corporate clients, provides real-time information to help a company’s IRO, management team and board members better understand their stock: analyst information, 13-F filings and investor tracking.

The Market Intelligence Desk is a team of professionals who can provide real-time trading analysis and insight, and, with the help of technology, provide Blackberry-accessible reports at the end of each day, such as information about a company’s top five peers. Each listed company has a NASDAQ relationship manager — a dedicated point of contact who ensures that the company understands how best to work with NASDAQ and receives important communications about listing regulations and other relevant topics.

NASDAQ also has a host of products and services to address communication, market intelligence, governance and other issues significant to a public company. These are available to any public company — not just their corporate [listed] members — for a fee. Some of the services include investor tracking, conference calls, Web site development and maintenance by Shareholder.com, press release distribution through PrimeNewswire, and D&O and E&O insurance

through another NASDAQ-owned company.

Their newest products to be offered are Directors Desk, a communication and workflow information tool “that we use ourselves,” said NASDAQ’s Aust, and Pinpoint Market Intelligence, a service that debuts this month to help companies determine factors that affect trading through stock surveillance, ownership data and analysis of institutional trading activity.

NYSE’s High Touch Solutions

According to Theresa Molloy, vice president of marketing for NYSE Euronext’s Global Corporate Client Group, there are three categories of services offered to their listed public companies, all of which

are covered by their listing fees: visibility programs, market intelligence and educational/advisory programs.

Visibility programs, NYSE's "marquis services, have become robust with the Euronext merger," said Molloy. While NYSE has offered virtual and face-to-face meetings and conferences for many years, its expansion into Europe now provides companies with new connections to European investors.

Companhia Vale Do Rio Doce (CVRD), a mega-cap diversified mining company based in Brazil and listed on the NYSE, looked to the exchange for help with access to the media and investors as it worked to expand its global reach, she explained. Last November, NYSE hosted an investor conference and a press conference for CVRD at the Palais Brongniart, the historic Paris stock exchange and city landmark. The press conferences were translated into three languages for investors from Europe, Latin America, the U.K. and the U.S. The investor and press conferences were also made available via webcast.

Closer to home, the NYSE Euronext's global network provides its corporate clients with access to government leaders and regulators, according to Tom Veit, senior vice president of NYSE's Global Corporate Client Group. The exchange invites corporate thought leaders from different industry sectors and policy makers to meet at their offices and to share their ideas.

NYSE's market intelligence tools include its foundational tool — the NYSEnet Web site that was re-launched last May — to provide more real-time information about trading. It will be further expanded over the next year, said NYSE's Molloy. New products are VolumeTracSM, access on an hourly basis to information about the activity of brokers who bought or sold the company's stock, and NYSE OpenBook[®], a view of the specialist's limit order book to see buy and sell interest — "a window into a stock's liquidity," added Molloy. Another recent addition is the NYSE Market FocusSM, a customized daily summary that includes company and peer stock performance and major market performance — information including leaders and laggards, and breaking news affecting the market. Beyond reports, a company's specialists and its dedicated client services manager can provide additional information and insight, added NYSE's Veit.

NYSE's third category of services, educational/advisory programs, includes webcast expert-panel discussions of timely and relevant topics.



Len Griehs



Pepperidge Farm (a unit of Campbell Soup) president and others ringing the bell at NYSE.

Exchange Services Vary in Characteristics

In reality, both exchanges offer high technology and high "human touch" solutions, but each has the characteristics of its own brand. Both NASDAQ and NYSE have a variety of tools and benefits available simply for the asking. Both exchanges are experiencing a period of growth and change. Aside from the loss of some specialist firms, which has left some companies with fewer specialists to contact, some IROs say that there has been little impact to their programs because of recent changes. And whether or not they will be affected by further acquisitions remains to be seen.

Ultimately, IROs and exchange representatives concur: Looking jointly at the company's goals and collaborating to achieve them helps create valuable partnerships between the IR program and the exchange. And those partnerships can make both organizations successful.

Next month, *IR Update* takes a deeper look at IROs' reaction to changes at the exchanges, use of exchange-offered tools and programs, and loss of specialists with the results of a January 2008 snapshot survey on the topic. [IRU](#)

Carol Metzker, coauthor of Appreciative Intelligence: Seeing the Mighty Oak in the Acorn, contributes regularly to IR Update. She can be reached at Carol@ServeforSuccess.com.

Changing Environment for Company-Institutional Investor Meetings

Part I of Two-part article on road shows

INTRODUCTION BY HANK BOERNER

Among the many changes taking place in the capital markets, and presenting greater challenges for the IR officer, are those involving face-to-face meetings with current or potential institutional investors. Do we still maintain a tight focus on the sell-side? How do we better penetrate the buy-side investment community? Do investor labels have meaning any more — *value*, *momentum*, *GARP*, *large-cap investors* — how do we know they really are what the label says?

Over the past year *IR Update* has presented a running series on some of the most critical tasks for NIRI members: The dialogue with institutional investors; in-person, via digital platforms, at group meetings, on the road; and on the road in the European Union if your company is seeking investors (or already has owners on board) from beyond the seas.

These concerns are shared at the CFO level: Recently *CFO* magazine editors commented on such topics as “on the analyst circuit,” and meeting with “the right investors.” Getting the most out of road shows, analyst and investor meetings, conferences and the like “requires more than getting invited and just showing up,” notes CFO’s Lori Calabro. “One-on-ones and conferences trump analyst research in value,” claims CFO’s Alix Stuart, who notes that despite the predictions that Reg FD would curtail discussions, “face time apparently hasn’t lost its value.”

There are probably as many opinions on analyst and investor meetings these days as we find around the swirling debate on earnings guidance — or not — or quarterly vs. annual if issuers do project future earnings.

In this two-part article we look at a new approach to investor meetings — the payment by the institution for inviting in companies of their choice ... and how this is being done at the regional and national level. We begin with “Off the Beaten Path” — a look at sometimes overlooked regional markets for company visits — from partners of a firm specializing in coordinating regional meetings. Next month we will look at new approaches in setting up national meetings.

OFF THE BEATEN PATH:

REACHING INVESTORS THROUGH THE REGIONAL ROAD SHOW

BY JOHN SCHOGER AND DIANNE IANNARINO

Whether you are looking to increase your shareholder base or want to build stronger relationships with some of your top shareholders located outside of the largest money centers, you should give careful consideration to the opportunities you have to meet with investors in regional money centers. (These include Atlanta, Charlotte, Dallas, Des Moines, Detroit, Kansas City, Milwaukee/Madison, Ohio’s “Three Cs,” and Pittsburgh).

Often overlooked, these regions have large pockets of actively-managed domestic and international equity assets from diversified sources, including state and corporate pension funds, super-regional and regional banks, mutual funds, insurance companies, and a range of independent investment managers — all eager to meet with IROs and senior corporate management.

EXPECT MORE IN THE REGIONS

In these regional markets there is often more money under management than you may expect. In the Ohio and Western Pennsylvania region that we serve, there is over \$200 billion in internally managed equity assets, including five institutions which each manage more than \$30B in equity assets. Fifteen more institutions each manage equity assets of at least \$2B, many with concentrated holdings, enabling them to take meaningful positions in small- and mid-cap companies, in addition to their large-cap holdings.

VALUE FOR INSTITUTION TO MEET DIRECTLY WITH COMPANY MANAGEMENT

Now more than ever before, regional institutions have a greater need to meet with corporate management. The recent reduction in their budgets has significantly reduced the investors’ ability to visit directly with corporations or attend distant conferences. At the same time, the Street has been more selective in analyst coverage, eliminating many analyst positions and reducing their travel budgets as well. The effects of these changes are more acute within the regional investor community.

Typically, we are seeing that portfolio managers rarely travel. Since the analysts and portfolio managers work as teams in making investment decisions, your company’s

presence in the regional market can be value-added to their internal research efforts. As a result, their investment teams often have a greater appreciation for your time and commitment — and for the opportunity to sit across the table from you in their own boardrooms.

NOTE PERSONALITY DIFFERENCES

In contrast to the faster pace of money investors and activist hedge funds we commonly find in the big money centers — in New York, Boston, Chicago and San Francisco — regional investors are often more conservative and consider themselves “owners of a company,” not simply “renters” of a stock. In general, the majority of regional institutional investors that you will meet have mid-term to long-term investment strategies, low-to-medium portfolio turnover rates and tend not to drive their trading decisions on momentum or quarterly earnings, but instead focus on corporate and sector fundamentals.

YOUR AUDIENCE — WHAT TO EXPECT IN THE REGIONAL MARKETS

Regional markets do not see corporate management and Street analysts as frequently as the larger money center analysts or portfolio managers do, and consequently, corporate visits are a precious commodity to them. These investment teams understand the time constraints placed on company management and welcome the opportunity to meet with an IRO or with C-level management. These investors want to hear about your strategy, initiatives, management focus, financial structure, new products, and growth prospects.

Expect regional institutional portfolio managers and analysts to be knowledgeable about your company, industry and competition, allowing the meetings to be conversational. The IRO and managers will have ample opportunity to tell their company’s story. The regional investors are qualified professionals, mostly CFAs who are diligent in their questions and well-versed in the financial markets and their specific industry coverage. The meeting intensity can vary widely but many times the meetings begin with an overview of recent significant events and strategic initiatives that leads to more in-depth discussion and Q&A.

REGIONAL DIFFERENCES

Although every regional market is distinct and has its own nuances, they can be the “hidden jewels” for your company, found outside the traditional mega money centers. These regional road shows can bring another dimension to your corporate dissemination of financial information.

As Mark Steinkrauss, vice president, corporate relations, Telephone & Data Systems (and NIRI member) notes: “I think it is important to seek out these regional investors. Not only do they appreciate the effort and face time, but they also tend to be well-prepared and serious about evaluating your company. For a Midwestern company (TDS), it’s good to know there are committed investors with billions under management just next door.”

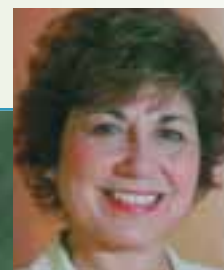
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Tips for Regional Investor Meetings

- **Time is valuable.** Do some advance work; visit regional markets on your own to evaluate the investment climate and to determine where there is significant interest to warrant management’s time on future trips that take you to/through the region.
- **Begin your road show in a regional market.** This allows you to become comfortable with your story, get a flavor for the topics and questions on the minds of investors and prepare management for the more intense meetings typical of the money centers.
- **Consider stopping by a regional market while traveling to/from a scheduled meeting or conference elsewhere.** Triangulating another city can be a very efficient use of your travel time.
- **Be more productive by visiting two cities in one day** ... Pittsburgh/Cleveland, Cleveland/Columbus, Columbus/Cincinnati, and Milwaukee/Madison are a two hour drive from each other and very do-able for investor meetings.
- **Send an electronic copy of your presentation ahead of your visit to familiarize your audience with the company’s story,** which allows the meeting to be more productive. This is especially true for small-cap companies that have less analyst coverage and are not as well known.



John Schoger



Dianne Iannarino

Shareholder Measurements: What do Shareholders Want?



Eleanor Bloxham

BY ELEANOR BLOXHAM

In my book, *Economic Value Management*, I discuss the measurement of stock price and what it can imply about shareholder expectations. This is an important area, of course, for the board, management teams and IROs to understand because it can provide a framework for discussing where the company is today, the future expectations of shareholders, and the value the company intends to add in the future.

Recently, because of my work in this arena, as a favor I was asked to review a draft of an article that an author had submitted for publication to a well-known magazine. Specifically, I was asked to opine on the accuracy of the article, its insights, and its comments on the topic of shareholder value, its measurement, and what those measurements implied. The exercise provides a cautionary tale in the area of shareholder measurements, their limits and potential — and the central role of IROs in understanding shareholders — and in proactively communicating with them.

Here are the lessons learned that every IRO should consider in using shareholder-related measurement to determine their investor relations strategy. Some of these lessons may seem simple; however, as the article review demonstrated to me, not following these simple rules can trip up even the most advanced and respected institutions.

- **One:** before using any measure or system of measurement, make sure you can clearly articulate each number and what it stands for in detail. If financial theory is involved, make sure you understand the basis for the theory, its limits and its assumptions.

As it turned out, the draft article I had been asked to review based many of its premises on an article published several years ago in a much esteemed and widely-read university publication. Because of the imprimatur of the publication, many people reading such an article might take it at face value.

Unfortunately, this article was riddled with inaccuracies — and as I researched the matter I discovered that even subsequent issues of the publication did not include any editorial responses or corrections.

But the article was based on a false premise, a misinterpretation of the famous dividend discount formula and the meaning of the terms in that formula. As a refresher, the dividend discount formula is based on the formula for measuring the value of a growing perpetuity, i.e. $\text{Value} = \text{Cash Flow} / (\text{Discount rate} - \text{Growth rate in cash flow})$.

This valuation model is simplistic. However, even accepting this simplistic model, the article's false premises were based on a misunderstanding of basic finance and the meaning of the terms in this formula. (This issue was not wholly new to me, as I had encountered a similar issue when I was working at a major financial services firm where consultants had come in and I had to correct their misuse of this same formula.) What surprised me, however, was how this could have passed so many reviews in this publication without being caught and how significant this misinterpretation was to the article: nothing in the article held up because it was wholly based on a false premise, a misunderstanding of the numbers.

In the boardroom, one of our ongoing mantras is that directors must ask questions about the numbers until they can understand them. IROs in the financial services industry have recently experienced firsthand that the lack of answers to important questions can lead to significant turmoil and changes in share ownership.

So too, for IROs, as with members of boards, asking questions to a level of depth to ensure understanding is critical to using shareholder measurements in an informed way.

- **Two:** another lesson from this exercise is the critical importance of financial acuity. For analysts and some shareholders, their language *is* numbers. This connection to numbers will be a false connection unless, as the review of the article demonstrated, there is a deep understanding of what the numbers really mean.

In my work with CEOs and boards, I am finding more and more that lack of financial acuity is a career or deal breaker. And the ability to discuss the numbers and understand the principles of finance *are* critical for both the board — and for IROs. While my expertise has been called on by investment banks to assist and comment on their valuation models, ideally, IROs should also be in a position to comment on these models and provide their insights from a deep level of understanding.

- **Three:** understanding the limits of the value of a model is also important for both boards and IROs.

The review of the article demonstrated this in several ways. First, the dividend discount formula ($cf/r - g$) is very simplistic. The article I reviewed suggested a universality of application which is not based on reality. Companies grow at different rates at different times and this model does not take into consideration different growth scenarios or time horizons.



IN THE BOARDROOM, ONE OF OUR ONGOING MANTRAS IS THAT DIRECTORS MUST ASK QUESTIONS ABOUT THE NUMBERS UNTIL THEY CAN UNDERSTAND THEM. IROS IN THE FINANCIAL SERVICES INDUSTRY HAVE RECENTLY EXPERIENCED FIRSTHAND THAT THE LACK OF ANSWERS TO IMPORTANT QUESTIONS CAN LEAD TO SIGNIFICANT TURMOIL AND CHANGES IN SHARE OWNERSHIP.

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Second, the formula was used to suggest that shareholders' desires could be discerned from the numbers and then should be acted upon to meet shareholder expectations and to increase the value of the stock. Boards and IROs, however, need to be clear on the limitations of the value of shareholder measurement and of their respective roles in order to avoid short-term tradeoffs at the expense of long-term gains.

While the article I was reviewing implied that management should "read the tea leaves" and do what shareholders wanted, I think this is a misinterpretation of the role of shareholder measurements and how they should be used. Looking at the governance framework that boards and managements operate within, the governance structure is designed for shareholders to elect a board of directors which in turn is then empowered to select the management to run the company. The governance framework is *not* designed for shareholders or for boards to run the company.

Shareholder measurements provide perspectives. They do not and should not dictate strategy. It is up to boards and management to determine the strategy of the firm. It is important for boards to hold management accountable and shareholders to

hold boards accountable. Boards and managements, with IROs as their advocates, need to use the information of shareholder measurements to communicate with shareholders about what is important to them and why, and, if their strategies differ from shareholder desires, why they do and why it is in the best interests of shareholders that they do. Shareholder information is an important input that must be carefully weighed.

Well chosen managers acting at the behest of boards in the best interests of all shareholders will be able to navigate this correctly and place the measures in the proper perspective. Addressing the issues by understanding the proper application of shareholder measurements in the context of a deep understanding of financial and valuation measures, IROs will be able to help board and management navigate the waters even more smoothly. 

Eleanor Bloxham, a strategic governance, valuation and leadership authority, is CEO and Founder of The Value Alliance and Corporate Governance Alliance (www.thevaluealliance.com), and author of the books Economic Value Management and Value-led Organizations, and the video library Conversations that Build a Bridge of Trust™, all of which discuss shareholder value and corporate governance principles.

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Kenneth J. Cynar, Executive Vice President
Governance & Accountability Institute, Inc.
 90 Second Street, Mineola, New York 11501
 Tel. 516.248.2383, ext. 11 Fax. 516.248.4045
 Email: kcynar@accountability-central.com

A QUICK TIP: DIVERSIFICATION

BY PAT REUSS

Usually, when people in the financial world hear the word *diversification* they think about monetary diversification. But the word applies to more than just portfolios and has an impact on more than just bottom lines.

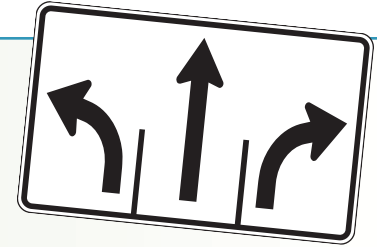
Diverse, diversification, diversity. All refer to the “quality, state, fact or instance of being different.” Generally, though, when people talk about differences among people it’s called *diversity*, rather than *diversification*. And, just as a diversified portfolio can provide financial health, so too can a *diverse* workforce lead to corporate health.

What are the facts about diversity in publicly-held companies today? Although companies with gross annual revenues of \$20 billion or more report a larger percentage of women and minority directors on their boards, there are still fewer than five percent of women in C-suite positions in the *Fortune 1000*. And the situation is even bleaker for African-Americans and Hispanics: less than two percent.

Is your organization committed to diversity among its employees? What about the IR department in your organization? What do your statistics look like? What can you do to make sure that your company does not ignore the vast talent pool that is available? Here are some starting points:

- *Look at yourself first.* It’s a normal human reaction to feel comfortable around people who remind us of ourselves. So we can start by cultivating a willingness to be around people who don’t look like us. Different genders, different racial and cultural backgrounds, different ages.
- *Forbid yourself to lean on stereotypes.* Stereotypes are lies built on misconceptions. You’ve heard them: “Fat people are lazy.” “Women are too emotional.” “Older people can’t learn new things.” “African-

Americans (or Hispanics or any other racial group except yours) can’t make it in the business world.” All completely false. And if we aren’t careful, we come to rely on, rather than challenge, these stereotypes because we have come to accept them on a subconscious level.



- *Make decisions to hire for diversity.* No, not affirmative action. But recruiting, training and hiring from a diverse pool of people will ultimately make your company more competitive and innovative. Seek out minority candidates. Find ways to reach out to women.
- *And then pay people what they’re worth.* Statistics from 2005 indicate how far from equal corporate pay rates can be. When applied to managers, women earn about 76¢ for every \$1.00 earned by white males. African-American men earn about 82¢ for every \$1.00 earned by white counterparts.
- *Stay ahead of the curve.* Some prognosticators have predicted that as more and more companies “go green,” and pressure decreases in that area, that no small degree of attention will turn to the human equation part of corporate social responsibility.

Being honest about diversity can be difficult. But true leaders don’t shy away from challenges. Be a leader in your organization. Work toward diversity in your department and in the company as a whole. It will be a decision that will make you and your company stronger. IRU

Pat Reuss is managing director and partner for *Write for You*, a Washington DC area consulting firm specializing in writing and editorial services, and a speaker on a variety of business issues. Additionally, she is director of training development for Renaissance Training, a provider of training materials to businesses nationwide. She can be reached at pmreuss@write-for-you.net.

OFF THE BEATEN PATH: REACHING INVESTORS THROUGH THE REGIONAL ROAD SHOW

continued from page 11

As we have seen from hosting over 200 companies — domestic and international, large-cap to small-cap, growth to value — most IROs have been pleasantly surprised by the quality of the meetings, and they are pleased to find how friendly everyone is in regional capital markets when you get off the beaten path. IRU

John Schoger is a partner at *Voyager Investor Services LLC* and has been hosting companies for eight years. Tel. 614-221-6680 or e-mail: john@voyagerllc.com

Dianne Iannarino is a partner at *Voyager Institutional Services LLC* and has thirty-five years in the institutional investment industry and supporting investor relations. Dianne is a member of NIRI Central Ohio Chapter. Tel. 614-221-6480 or e-mail: di@voyagerllc.com

Voyager Institutional Services LLC arranges and hosts IR road shows exclusively in the Cleveland, Columbus, Cincinnati, and Pittsburgh markets for U.S. companies and ADRs. *Voyager* was the first to offer no-fee, non-deal road shows in 2002 to U.S. companies or ADRs for regional coordinating services; buy-side institutions are their clients. More information at www.voyagerllc.com

The SEC Beat

BY LINDA KELLEHER



Linda Kelleher

Introduction: In 2008 as NIRI engages with the Securities & Exchange Commission on initiatives, IR Update will be regularly reporting on developments and progress.

Preview of 2008 SEC Priorities

SEC staffer Betsy Murphy previewed the Division of Corporation Finance goals for 2008 in a presentation before the NIRI Connecticut/Westchester Chapter on January 17.

Murphy, who is Chief, Office of Rulemaking in the Division of Corporation Finance, spoke to the 40 chapter members present. She suggested that even though 2008 is a presidential and congressional election year, the SEC's agenda is very ambitious and could include hearings, roundtables and rule-making on the following: rulemaking governing short sales; roundtable and concept release regarding U.S. companies reporting according to IFRS; re-examination of the NOBO/OBO rules; issuing proposed changes to the NYSE 10-day broker voting rule; revisiting the shareholder proxy access proposals of late-2007 (the concept to allow shareholders access to communicating via the proxy and to nominate Board members); and, concept release requiring companies to disclose if they do business in terrorist countries.

In highlighting the SEC's achievements in 2007, Murphy spoke about the Internet delivery of proxy materials — known as the “notice and access rule” — noting that companies have the option of using “notice only” for some shareholders and “full set delivery” option for others. (For more information about the e-Proxy rules, go to www.niri.org and see *NIRI Executive Alert*, “NIRI Finds Companies Split on Notice and Access Adoption for 2008,” and on demand e-learning webcast, “*New e-Proxy Rules from the SEC*,” originally broadcast in July 2007.)

During Q&A the commission staffer indicated that the SEC is looking into the “empty voting” issue.

SEC Advisory Committee on Improvements to Financial Reporting

The SEC Advisory Committee on Improvements to Financial Reporting (CIFiR) was chartered in July 2007 to examine the current U.S. financial reporting system and identify ways to reduce complexity and make information more useful and understandable. Four subcommittees are tasked with review and recommendation in these areas:

1. Reducing complexity
2. Reviewing standard-setting processes
3. Reviewing the audit process and compliance
4. Improving the delivery of financial information

It is the last subcommittee (#4) — chaired by CFA Institute President Jeff Diermeier — that has significant implications for the investor relations profession.

Delivery of Financial Information — Subcommittee Seeks NIRI's Input

This subcommittee is evaluating both information needs of investors and delivery methods. NIRI is invited to comment on the content and quality of quarterly earnings releases during a meeting on February 15, 2008. The Subcommittee intends to consider:

- Consistent provision of income statement, balance sheet and cash flow tables.
- Positioning and prominence of GAAP and non-GAAP figures, GAAP reconciliation.
- Consistent placement of topics and clear communication of any changes to accounting methods or key assumptions.
- Issuing the quarterly press release the same day as the Form 10-Q is submitted.

While NIRI formulates its response, we are seeking input from the membership via the survey sent to all corporate members on February 6, 2008. Your response is important. Questions,


suggestions, comments? Please send these to Linda Kelleher by e-mail: lkelleher@niri.org.

Subcommittee on Delivery of Financial Information Moves Ahead With Two Recommendations

Two “Developed Proposals” that were approved at the January 11 meeting and will be included in the Advisory Committee’s final recommendations to the SEC:

1. The SEC should develop a defined time frame to implement XBRL — beginning first with the *Fortune 500* companies followed a year later by all accelerated filers. The timing comes after certain assurances are met — including the compatibility of XBRL and EDGAR — as well as some means of “assuring that the information is accurate.” To make compliance easier, the XBRL tagging will be required on the “face of the financial statements” and the footnotes will be considered in a block rather than granular tagging.
2. The SEC should issue a new comprehensive interpretative release regarding the use of corporate Web sites for disclosures of corporate information. The Subcommittee suggested that tiering

information, use of XBRL, hyper linking and disclosing key performance indicators (KPIs) would be valuable to the investor community.

Finally, SEC Director of the Division of Corporation Finance (and NIRI 2008 Annual Conference speaker) John White has disclosed that he has SEC staff reviewing their interpretative release on the use of corporate Web sites, and other innovative uses of technology for disclosure of information. White recently spoke at the 35th Annual Securities Regulation Institute in San Diego, and provided, “... a review of where we have been in the last year and a preview of where we are headed in Corporation Finance in 2008.” White noted that the biggest area of focus in 2008 is financial reporting including use of interactive data, IFRS for U.S. issuers, proposed recommendations of the CIFiR (including on materiality and restatements and use of Web sites for disseminating financial information), and SOX 404. 

Linda Y. Kelleher is executive vice president of NIRI. She can be reached at lkelleher@niri.org.

MindShare

NIRI’S NEW MEMBER BLOG FOR AND ABOUT YOU

NIRI has launched a powerful tool — MindShare — a new blog devoted to members.

Emerging technologies are changing and enhancing the ways we communicate with each other. We hope to enhance membership in NIRI by embracing these new technologies.


MindShare is NIRI’s member blog — a new Web-based resource that serves as a forum for sharing opinions, encouraging and sharing best practices, hot topics and discussions, and instant interaction with other members. While NIRI National will post content to begin the conversation, MindShare is *not* about NIRI providing an opinion on each topic. A benefit available only to members via the password-protected NIRI Web site, the blog is for and about NIRI members.

One of the primary benefits of NIRI membership has always been the ability to network and share information. MindShare expands this benefit by making the networking and information exchange available anytime and anywhere. MindShare is another NIRI resource that encourages high-level strategic thought leadership around the discipline of investor relations.

This new channel of interaction is a work in progress. We expect to find ways to continuously improve it as we move forward, and are counting on you to offer suggestions. MindShare will be successful and expand as you participate and add your knowledge and expertise to the mix.

Based on recent communications, the current economic downturn and its resulting effects on the financial markets in terms of volatility and pressure is a source of concern for NIRI members, and is the subject of the first blog entry.

- Has the current environment had an impact on you and your IR program?
- Have you experienced a change to your budget, staffing, travel?
- Has your company altered its communications with the Street?

NIRI members have the ability to gain insight into others’ experiences and practices on this and other subjects central to the profession right now. So what are you waiting for? Join in the MindShare now at www.niri.org/blog/blog.cfm. 

ASK THE RESEARCHERS: Insight on the Questions IROs are Asking

QUESTION: “We’ve been thinking of shifting from quarterly to annual earnings guidance. How does the buy-side react to this kind of a move?”



Brian Rivel



Jim Peebles

BY BRIAN RIVEL AND JIM PEEBLES

A reflexive answer to this question invariably is that *more disclosure is better than less*. However, the growing tide of buy-side sentiment nowadays is that quarterly earnings guidance can have some really negative consequences on valuation — consequences which trump the benefits of “keeping analysts’ estimates in line.”

In both our proprietary and broad-based national surveys, the prevailing opinion is that quarterly earnings guidance encourages a short-term perspective on a company’s investment appeal, not only among the investment community but among senior corporate executives as well. And, the buy-side certainly does not appreciate the volatility risk which they also associate with quarterly earnings guidance as a company’s valuation ratchets up and down on a quarter-to-quarter basis according to its ability to hit its earnings forecasts. A couple of verbatim comments from our most recent buy-side study (completed in June 2007) illustrate:

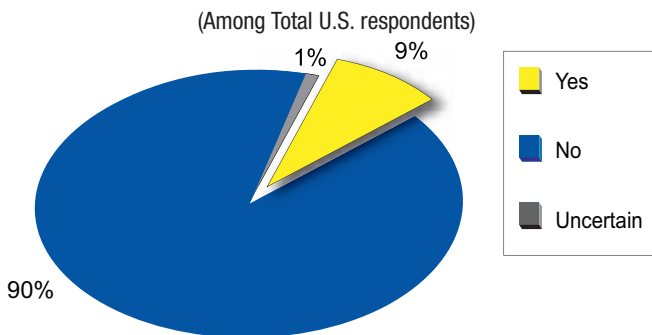
“It is tough for businesses to pinpoint exact numbers and if executives are thoughtful and give thoughtful responses to questions as far as how they think their business is operating,

then the buy-side should be able to turn that into what they think their expectations are, but we don’t need to be guided and then punished when they don’t meet their guidance. We actually think guidance gives people a bad incentive to do whatever they think they can to meet that guidance, and they sacrifice some of their long term thinking around their companies.” Portfolio manager

“Quarterly earnings guidance is important to the Street [but not so much for me]. In the grand scheme of things, it is not important. I see a trend where more and more companies are scrapping the guidance for each quarter.” Portfolio manager

Reflecting this evolving mindset, the vast majority of buy-side analysts and institutional investors report that they have not been punishing companies that make the change. Indeed, some are quite outspoken in their view and actually applaud the decision to provide earnings guidance solely on an annual basis and then to simply update progress in achieving the annual number on a quarterly basis.

Over the past year, has the fact that a firm changed from providing quarterly earnings guidance to annual guidance with quarterly updates caused you not to invest in its stock?



“No. I have not done this. I think this fits back into our longer-term vision. We realize that quarterly fluctuations have only a minimal importance. It is the annual numbers that are very important. Because now you have vision into a company’s business strategy and that is what we are really trying to understand.” Buy-side analyst

“I would still invest in a company if they changed to providing only annual guidance from quarterly guidance. In fact, I would pat a company on the back for changing from quarterly guidance to annual guidance.” Portfolio manager

In our view, investor relations officers need to disassociate the concept of *guidance* from *earnings*. Guidance is absolutely an essential communications tool which helps ensure that the investment community understands a company’s investment appeal and the steps management plans to take to leverage it into consistent and improving shareholder returns. In its simplest form, guidance means supplying the kind of visibility that can serve as the reality check investors require in monitoring whether their investments are lining up to achieve the established goals. More specifically, effective guidance means supplying insight regarding the crucial markers which are expected to drive corporate performance going forward. These need not always be financial but when they are, our data shows that buy-siders consider cash flows, margins and revenues to be on par in importance with earnings when it comes to guidance. And, non-financial factors can obviously be equally compelling including such operational issues as expected timelines for

product launches, international plans, progress in opening new plants/stores, etc. As one recent study participant summarized:

“What I don’t really care about are quarterly numbers but what we do want to talk about is the long-term profitability goals and operating models that the company thinks it can achieve in the businesses. So, longer-term operating targets and profitability is very important but short term earnings guidance is not very important to me.”

Portfolio manager 

Jim Peebles is executive vice president and Brian is president of Rivel Research Group. E-mails: brivel@rivel.com; jpeebles@rivel.com

Each month, *IR Update* presents this sharing of important insights of value to the IRO, drawn from Rivel Research Group’s rich survey research database. Rivel has been surveying the capital markets for more than 25 years giving it a unique vantage point from which to observe and comment on important IR issues of the day. This feature is designed to have an interactive aspect. Readers are encouraged to submit ideas for future articles. Inquiries should be sent to Jim Peebles, executive vice president, Rivel Research Group. E-mail to: jpeebles@rivel.com.



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On the Move

Angarola Promoted at NY Community Bancorp (NYSE: NYB)

New York Community Bancorp, Inc. promoted Ilene Angarola to executive vice president; she has headed the bank holding company's IR team since joining the company in December 1993 (when the institution converted to stock form).

Before joining NYB, Angarola was vice president and director of shareholder relations at Peoples Westchester Savings Bank, headquartered in Hawthorne, New York.

An IR professional and NIRI member for more than two decades, Angarola served on the New York NIRI Chapter board for six years, including two years as vice president - professional development. Before being elected to the New York NIRI Board, she served for six years as a board member of the Westchester Chapter of Women in Communications (including two years as president).

Angarola holds a Bachelor's degree from the University of Pittsburgh and a Master's degree from New York University.



Ilene Angarola

Tracy Named Senior VP — Chief Communications Officer at ev3

The global endovascular device company, ev3 Inc. (Plymouth, MN) named Julie Tracy as senior vice president and chief communications officer, responsible for IR and shareholder relations, executive communications, external communications and media relations. She is now the key spokesperson for the company.

Tracy joined the firm in January 2008; she is an industry veteran with 20+ years in corporate marketing and IR experience in the medical device sector. Before moving to ev3, Tracy served as vice president, investor relations and corporate communications for Kyphon Inc (Sunnyvale, CA), heading the company's global external communications and IR programs. In 2007, *IR Magazine* named Kyphon as one of four national finalists for the Grand Prix Award for best overall IR programs by a small-cap company. Tracy is a member of the Silicon Valley and San Francisco NIRI Chapters. [IRU](#)



Julie Tracy

In Memoriam — Robert “Bob” Wysocki

We're saddened to report that long-time NIRI member Robert (“Bob”) Adam Wysocki, of Bridgewater, Connecticut, passed away on January 23, 2008, after a long



Bob Wysocki

and courageous battle with cancer. Bob spent more than 25 years in the telecommunications industry at New York Telephone and NYNEX, serving as Director of Pension Fund Investments and Director of Investor Relations. He later founded and served as Managing Partner of Cornell Global Connecticut, a firm specializing in executive search for investment management and investor relations professionals.

A past president of the NIRI New York Chapter, Bob was also active in the NIRI Connecticut Chapter. Additionally, he was a member of the CFA Institute and the New York Society of Securities Analysts. Bob was a graduate of the U.S. Military Academy at West Point, served in Vietnam (1969-70) and was awarded the U.S. Army's Bronze Star for meritorious service. From 2002 to 2005 he served as a Civilian Aide to the Secretary of the Army and as a Trustee of the United States Military Academy at West Point. He was also a trustee of the Town of Bridgewater.

Bob is survived by his wife, Mary, and children and grandchildren. In lieu of flowers, memorial donations may be made to the Praxair Cancer Center-Danbury Hospital, 24 Hospital Avenue, Danbury, CT 06810.



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I would like to close by reiterating what an incredible honor it is to have been chosen to lead NIRI, the premier IR professional member association. This is not a responsibility I take lightly. The staff and I are firmly grounded in the knowledge that we are here to move NIRI forward in accomplishing its mission of advancing the IR professional and the IR profession. I look forward to providing you with regular updates through this column and our other communications as we make progress in accomplishing our important mission.



Jeffrey D. Morgan

President and CEO

jmorgan@niri.org

703-506-3585

INVESTOR RELATIONS *update*

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CONTACT: NIRI-*IR Update*, 8020 Towers Crescent Drive, Suite 250, Vienna, VA 22182, Phone: (703) 506-3570, FAX: (703) 506-3571, e-mail: amumeka@niri.org

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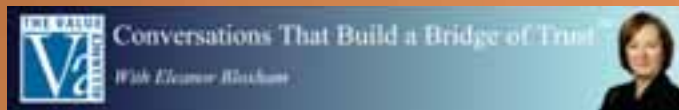
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- Inform your work as an IRO for your communications plans
- Gather information to educate others about the importance of issues
- Benchmark your organization's practices against others
- Validate your existing practices
- Learn different points of view

"The 'Building A Bridge of Trust™' series is a very powerful knowledge sharing resource for leaders in the corporate sector. The people in this video database are the thought-leaders and change-agents that are shaping the business and capital markets today."

Henry Boerner, Chairman
Issue Management Council
and Governance & Accountability Institute

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Our mission? To build a bridge of trust™ between management, board, shareholders, and all stakeholders that creates a sustainable value for all stakeholders.