

INVESTOR RELATIONS®

PRACTICAL TACTICS AND STRATEGIES TO IMPROVE SHAREHOLDER VALUE

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When the Worm Doesn't Turn

Real Reasons Management's blind faith in various poor performing business units confounds investors and surely strains shareholder loyalty. Corporate patience typically outlasts that of Wall Street. It's the "Turnaround Factor" at play. When, if ever, will efficiencies and profitability return to a particular line of business? How soon should losses be cut if the turnaround doesn't come?

The Classic IRO Quandary

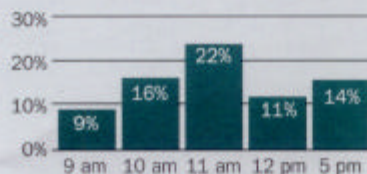
These are complex issues with which many IROs need to contend. It gets tricky when the CEO actually believes a given business continues to hold potential as the business burns resources and loses money. Meanwhile, analysts and investors clamor for change, demanding that managers fix it fast, sell it off or discontinue it. This is a

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DataPoints

Most Popular Times of the Day for Earnings Conference Calls

(based on Eastern Standard Time for Q1)



The information is based on over 5,000 corporate earnings conference calls occurring in January, February and March (Q1) 2003.

Source: CCBN StreetEvents
www.ccbn.com; (617) 603-7900

Investor Relations Meets Intellectual Property

by Bruce Sunstein

Talking Points With more investors putting a value on the intellectual property (IP) of companies, IROs of companies that place significant reliance on IP need to have a basic fix on this most complex subject.

Accounting for intellectual property – such as formulas, technologies, designs and recipes – is an arcane art indeed.

If a company is defending an infringement action in court based on a patent developed internally that threatens an entire line of the company's business, this circumstance need show up only in a footnote in the company's financial statements. Yet the situation is different if this same patent were recently ac-

quired by a company, and the patent is the company's last great hope for showing value in a patent portfolio recently acquired.

Under accounting rules that recently went into effect, the company that acquired the patent will most likely be obliged to engage consultants to determine

"It's important for investors to appreciate the difficulties of evaluating portfolios of intellectual property and the inherent uncertainty that lurks behind the precision of numbers in financial statements."

whether (and how much) the fair market value of the patent has fallen below its book value, and to report any "impairment" in value of the patent as a loss.

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SOX Cost Does Not Push Small Caps to Go Private – Yet

by Nancy Pratt

IROs at small cap companies will be pushed into challenging situations if their companies contemplate going private.

"There was a lot of hype this spring and summer that small cap companies would be going private as a result of the new compliance costs associated with the Sarbanes-Oxley Act," said Kurt Kunert, publisher at FactSet Mergerstat. "But the numbers so far this year haven't shown a dramatic increase."

Although many small companies have entered an exploratory stage for going private, they seem to be declining to follow through because of the high costs and complexities associated with a reverse

Number of Companies That Went Private

1998	90	2001	94
1999	151	2002	97
2000	84	2003	79*

* (as of August 31)

Source: FactSet Mergerstat

IPO. "I am curious to see how the year finishes," said Mr. Kunert.

Ken Stephens, CPA, at the accounting firm of Rothstein Kass, predicted that small caps are waiting to go private. Small companies have been given a reprieve so that they don't need to comply with some of the SOX standards until 2005. "You won't see a

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Investors Need Better Information About Exec Compensation *(continued from page 4)*

Delaware's Supreme Court, has all but issued an invitation to plaintiffs to file a lawsuit on this point of compensation policy disclosure.

In a recent panel discussion for *Harvard Business Review*, he said, "If directors claim to be independent by saying for example that they base decisions on some performance measure, and don't do so – or if they are disingenuous or dishonest about it – it seems to me that the courts in some circumstances could treat their behav-

ior as a breach of fiduciary duty of good faith."

Make Pay for Performance Clear to Investors

If the top three levels of the organization have the same short-term metrics and the same short-term time horizon for planning and decision-making, then what value does the CEO add that is different from his or her direct reports? This situation calls into question whether the CEO is being held accountable for the right work or whether the CEO is being

overpaid for the work he or she is doing.

To create true pay for performance that drives longer-term sustainable value and appropriate disclosure for shareholders, companies must align the following: accountability structure, performance metrics, time period for measurement, and compensation. ☐

For further information, see www.mvcinternational.com; or e-mail Mark Van Cleef at Mark@MVCInternational.com.

Investor Relations Meets Intellectual Property *(continued from page 1)*

Goodbye to Goodwill

In the past, the accounting treatment for a business acquisition typically regarded as "goodwill" the amount by which the purchase price for the business exceeded the fair market value of the assets acquired. The goodwill was typically subject to a write-off over a period of many years. The Financial Accounting Standards Board (FASB) came to regard this treatment as unrealistic. The reasoning is that the value of specific intangibles, such as trademarks, patents, and other rights associated with a brand were neither separately addressed nor separately valued.

Valuation of IP

The valuation of intellectual property, and patents in particular, is a relatively recent phenomenon and may result in any of a wide range of possible outcomes. Economists, in fact, are arguing that patents should be regarded as "real options" and valued using sophisticated formulas applying to the valuation of options.

It is not unfair to question whether the precision of numbers required by the accounting profession in preparation of financial statements is suitable for characterizing, on a wholesale basis, the value of intellectual property assets held by a company.

Some major companies, such as IBM, have been quite successful in developing patent portfolios that have been licensed widely and that have produced substantial revenue streams. Other firms, such as Bayer, develop patent rights that cover their products but do not emphasize licensing these rights widely to others. Can it be said that for a given dollar of revenue, the IBM patent portfolio is worth more than that of Bayer?

The elusive goal of greater transparency in financial reporting for intangible assets, and intellectual property in particular, remains a distant one. It's important for investors to appreciate the

difficulties of evaluating portfolios of intellectual property and the inherent uncertainty that lurks behind the precision of numbers in financial statements. The next best thing to a specific study of items in a company's portfolio of patents and trademarks is a feel for the corporate culture of the company. IROs can work to educate investors in the area of corporate culture as well as the key points of financial statements. ☐

Bruce Sunstein is a partner at Boston-based Bromberg & Sunstein LLP. For more information, please contact Mr. Sunstein at 617-443-9292 or bsunstein@bromsun.com.

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