The Sell-Side Investor Conference

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Among the most highly prized attributes of the best IR professionals are their credibility and reputation. Ethics, personal and professional, are part of your core identity. Ethical behavior is also something that is so important to our profession, members of NIRI must sign and abide by an ethics pledge.

This month's issue of IR Update includes an article on this important issue. Those interviewed are members of NIRI's Ethics Council, which was formed by the NIRI Board of Directors as an independent council to elevate the importance of ethical issues and provide additional resources to the membership and the board itself. The council acts as an independent committee of the board regarding ethical matters that may arise in the practice of investor relations.

The Ethics Council serves NIRI and the profession in several key areas:

1. Provides advice and counsel to the NIRI Board of Directors regarding ethical issues, as requested, and recommends appropriate actions the organization may want to evaluate.

2. Reviews the NIRI Code of Ethics annually to ensure it is addressing the needs of the membership and profession.

3. Provides confidential advice to the NIRI membership-at-large, assisting members with ethical questions and concerns and reaching out to members whose companies may be involved in publicly announced ethical situations.

4. Provides recommendations to the NIRI board concerning the enforcement of NIRI's Code of Ethics. The NIRI board makes all final determinations regarding ethical matters.

Please take particular note of the third area. As you go about your daily business in investor relations, remember the NIRI Ethics Council is here to help you if questionable situations arise. It is a great benefit of NIRI membership, so please don't hesitate to reach out to this group of peers for assistance. Here are the current members of the NIRI Ethics Council:

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About NIRI
Founded in 1969, the National Investor Relations Institute (www.niri.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 3,500 members representing 2,000 publicly held companies and $5.4 trillion in stock market capitalization.

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See You in Seattle at THE Event

The NIRI Annual Conference is the largest global gathering of investor relations professionals. It is the annual event to attend if you are an IR practitioner or provide support services to practitioners. The conference requires a community of volunteer members to organize and many more to serve as speakers. In fact, planning begins more than a year in advance.

Hats Off to Our Volunteer Committees

Annual conference co-chair selection occurs about 16 months before the event. Next, a cross section of members is selected for the Annual Conference Committee about 11 months in advance. At nine months out from the June conference, the committee announces its call for presentations, inviting members to submit their session ideas for the conference.

Then, until about two months before the conference, the committee works diligently, debating session topics, inviting speakers, and participating in preparatory calls with speakers. In the final two months, volunteers ensure that handouts are turned in, speakers are ready, and NIRI puts on the best program possible for the approximately 1,400 attendees.

Another volunteer group key to conference success is the Events Committee consisting of members from the host city. This year’s group has done everything possible to ensure that Seattle rolls out the welcome mat for NIRI members. You will find Seattle to be a charming city full of beauty, fresh air, and much more!

We typically see more than 25 percent of NIRI members attending the conference. Many members attend every year as they find the programming and the networking to be invaluable. The relationships built at the NIRI Annual Conference are used time and again throughout your career.

The IR exhibitor showcase is the largest of its kind. Attendees find value in meeting with this part of our IR community. This is a chance to set aside high-pressure sales and discuss problems and challenges with those who may have a solution or idea to improve your IR program.

Many Conference Firsts

Though our Seattle location is a first for NIRI, you will see other conference firsts including a global summit and an opportunity to meet with investors. Then, feel free to relax by challenging your friends to a game of Xbox athletics (bowling anyone?).

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On behalf of the NIRI Board of Directors, I thank the many volunteers, speakers, exhibitors, and sponsors for their time, dedication, and support in ensuring the very highest quality program.

Finally, enjoy the conference and I look forward to seeing you at the Seattle Convention Center!
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IROs spend a lot of time and money on these conferences. Here are some ways to maximize these investments.
The stressful scene is all too familiar to IROs. A crowded registration area, complete with scores of familiar faces. An anxious senior management team. A full list of one-on-one meetings with buy-side. Last-minute stress about the formal presentation. And it’s a scene that can be repeated several times a year.

For many IROs, sell-side investor conferences now take up an increasing percentage of their time including travel and preparation. Given the financial crisis, some may have thought that such conferences would diminish. On the contrary, they seem to multiply every year. They may be in slightly less glamorous settings than before but they are a mainstay of the IR calendar for most companies.

Depending on the industry, companies can attend upwards of a dozen such conferences a year. The evidence suggests that companies are starting to pare down the number of conferences they attend.

Some of the reasons are obvious. There are just too many. The same buy-siders show up at every conference, as if portfolio managers have decreed that the analysts can’t risk missing anything that might be said, any glance, or sign of anxiety. The pressure seems always on to say something new and different.

This is a recurring dilemma because conferences can also get scheduled too close together. Many have heard the investor complaint, “You’re not saying anything we haven’t heard before.” The response: “Of course not, we just saw you two weeks ago.” This is probably a good thing, as it underscores a company’s consistent messaging, but the frustration is obvious.

Some conferences are conducted at resorts in remote locations. One health care conference used to be scheduled at a top ski resort in the Rockies. It was moved after one year when many CEOs were stranded for several days due to nonstop blizzards.

Some buy-siders, however, prefer being away from home base. “New York can be distracting. It’s often more productive to be away from the office so I can give the conference my full, undivided attention,” says Judith Trepanier, an analyst at Oracle Partners.

The large and not-so-large investment banks cling to this conference model with a steely resolve. The investment bankers see it as an opportunity to meet with company management. The equity teams believe them to be a vital lure for top buy-side clients.

Here to Stay

Whether or not this is true, sell-side conferences are with us. The question is -- how does the IRO best exploit these opportunities?

Based on conversations with sell-siders, buy-siders, IROs, and others, several key factors emerge.

First, resist the need to go to every conference. Pick and choose those that fit your schedule and budget. You may want to only attend those in cities with large investor bases such as New York and Boston. There will also be one or two that are “command performances,” conferences that by tradition or schedule are not to be missed. But you can skip some. Investors know that, in many industries, the calendar is too crowded.

“We can’t do all of them so we spread them out and take a targeted approach,” says David Erickson, vice president of investor relations at Edwards Lifesciences. “We look at location and known upcoming events to determine which conferences we’ll attend.”

Next, provide a polished presentation that is clear and simple. According to several buy-siders and consultants such presentations are important, even if the crowd may be small. Some observers may think that the audience is investors who know the company story and are just there to glean any dollop of new information or to check management’s body language.

This is not necessarily true. Many buy-siders will use investor conferences to check out companies they don’t know well, companies that are direct competitors, or key customers or suppliers of companies they do hold.

So, the presentation can be the first introduction of the company to a whole new set of investors. But, how do you balance the need for simple, clear, and basic information for one subset of the audience with the need to say something new and different for the ardent followers?

“It’s important for presentations to clearly place the company’s strategy in the context of its realistic growth opportunities,” says Christine Arnold, an analyst at Cowen & Co. “Don’t repeat the Ks and Qs. Focus the presentation on the outlook and how the company is balancing opportunities with risks.”

Slide Show Tips

While your company’s well-informed buy-siders may not have much patience for a repeat of the basics, the unininitiated in the audience crave a clear and simple statement that underscores the investment rationale for the stock. You should also provide a quick update on the latest investor concerns. You can do it with one slide.

Further, with the usual time slot of about 25 minutes, a maximum of 10
to 12 slides seems about right. More than that the speaker will have to rush and may not finish. Also keep individual slides uncomplicated. Microsoft, the maker of PowerPoint, says that a text slide should be no more than 45 words.

Statements such as, “now I know there’s a lot on this slide” or “these charts require some explaining” will slow the presentation and divert attention away from the speaker. A chart should communicate a single concept. If there’s a lot of important technical information, provide a handout.

Keeping the presentation slides limited in number, clean, and simple helps focus the audience’s attention on your CEO or CFO, where it should be according to investors. The bravest managements do presentations without any slides, one way to ensure rapt attention on the speaker.

“I go into a presentation of a company I may not know that well to get a feel for management. I want to get a quick overview of the story and see how they handle themselves and how they handle Q&A,” says Josh Fisher, founder and portfolio manager at PresPoint Capital.

Showcasing Management

In addition, many use conferences to showcase executives other than the CEO and CFO. “Conferences are a good opportunity to showcase important members of line management,” David Erickson notes.

Some conferences now eschew the presentation in favor of a “fireside chat” approach where the sell-side analyst sits down with senior management for a Q&A session. Another approach is the use of a “breakout” session after the formal presentation.

Whatever format is used, thoroughly prepare management for the Q&A portion. For many investors this is the time to take the measure of management, to assess their command of their company’s and the industry’s issues.

So, as with the quarterly conference call, the preparation of a comprehensive Q&A document coupled with adequate time spent with management reviewing the document is an absolute necessity when preparing for an investor conference.

Develop a strategy for one-on-ones to keep the team fresh. After the presentation and breakout, most companies wind up with a schedule of investor one-on-one meetings. Some investors go to conferences and just do one-on-ones. So do some companies. They’ve become a staple of conferences and a way to cover a lot of ground with investors in a short span of time.

“Don’t be shy about prioritizing one-on-ones. You should know who you most need to see and communicate that to the sponsor,” Cowen & Company’s Arnold adds.

Break It Up

A full day slate of one-on-ones can be exhausting. Maintaining consistency of message throughout a battery of meetings can try the patience and stamina of even the most dynamic CEOs and CFOs.

Some IROs now schedule intentional breaks during the day, to keep management fresh and allow time for phone calls and e-mails.

“I now schedule a break at lunch to allow the CEO to relax, recharge, and deal with the inevitable developments at the office,” says Angie McCabe, vice president of Investor Relations at Insurer Health Net.

Check Out the Competition

One additional opportunity should not be missed. Some IROs schedule extra time at a conference to check out other company presentations and breakouts. It’s a chance to see what others are doing, learn more about the industry, and conduct informal meetings with investors. IROs can also report back to their management teams on what they heard.

So, while investor conferences can, at times, be tiring they can also be ideal learning opportunities for you and your company.

“Some of the most important conversations can be unscheduled opportunities in the lobby or around the registration area. Don’t ignore these chances to maximize your and management’s time investment,” says Scott Rieger, president of Access IR/PR.

The investor conference is an elemental part of any IR effort. Making the best use of these opportunities is one key to a more effective IR program. Remember: Be judicious about the conferences you choose. Keep the formal presentation clear and simple. Prepare management for Q&A.

Make sure to keep the team fresh during the one-on-ones. Finally, use the chance to check out the competition.

These steps will make your time before, during, and following investor conferences more rewarding and valuable. Just remember to avoid the blizzards.

Whether or not this is true, sell-side conferences are with us. The question is — how does the IRO best exploit these opportunities?

David Olson is senior counselor with The Abernathy MacGregor Group; dwo@abmac.com.

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Whether or not this is true, sell-side conferences are with us. The question is — how does the IRO best exploit these opportunities?
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On the road again, I just can’t wait to get on the road again.” While IROs may not feel quite the level of enthusiasm about being on the road that’s conveyed in country music singer Willie Nelson’s lyrics, they are definitely excited about the prospect of taking more members of their companies’ management teams on the road to meet investors.

It used to be that the traveling team at most companies consisted solely of the CEO and the CFO. That’s definitely changed as IROs recognize the value of giving investors the opportunity to meet and greet other key members of the management team.

IROs highlight the benefits – and challenges – of expanding the team that represents companies to investors.

By Apryl Motley
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By Apryl Motley

IR update JUNE/JULY 2012
Three years ago, H.J. Heinz Company once again began broadening who participates in road trips and other communication with investors. “We wanted investors to gain a comfort level with us beyond our standard spokespeople,” says Meg Nollen, senior vice president of investor relations. “Having them hear other voices and perspectives enriches our story and enhances our credibility.”

“All of a sudden, you’ve got a larger talent pool to work with when requests come in for speaking opportunities,” says Jeff Smith, director of investor relations for FedEx Corporation. About five years ago, Smith started bringing more people into discussions with investors.

“We’ve been trying to build up awareness of the management team at FedEx,” he says, “and demonstrate bench strength by increasing their [team members’] participation in investor meetings and calls.”

Office Depot has started “exposing more people to the Street as well,” says Brian K. Turcotte, the company’s vice president of finance and investor relations. “Investors really appreciate getting a look at the next layer down of management. Bench strength is important to them.”

Giving investors that reassuring look inside Accuray’s management team was one of Tom Rathjen’s objectives when he joined the company five years ago right after its IPO. “I started bringing other people on the road to tell a broader story, introduce more people to the investment community, and give investors a better view of the depth of our management team,” he says.

“We are willing to draft whomever we need at higher levels in management to help tell our story,” says Andy Schultz, vice president of investor relations for IHS. “We want to demonstrate to investors that we have a good management team in place.”

IROs say the key drivers of success in demonstrating bench strength to investors by exposing them to management at different levels within your company are strategic storytelling and practical preparation.

Story and Substance

Certainly, IROs don’t want just anyone talking to investors, but they are keenly interested in identifying those up-and-coming members of the management team who can positively contribute to their companies’ relationship with investors.

“We keep looking at the depths of our bench in terms of who should be exposed to the Street,” Office Depot’s Turcotte says. “They have to have something valuable to say about the company, which is more likely if they may be in more senior roles in the future.”

Rathjen sees subject matter experts on Accuray’s management team as “different tools to use to best tell” his company’s story. He says, “At certain times, their specific expertise will be helpful in rounding out the company’s story.”

For example, he’s started including the company’s head of global medical affairs, who is a surgeon, in investor communications. “He enjoys interaction with the Street and has been very coachable,” Rathjen says. “He brings a great element to the table to explain the benefits of our products from a clinical standpoint.”

“You want someone who will be objective while being a strong sup-
decision to consolidate its data resources and centrally locate them in India. “We put her in front of investors as much as we could,” Schultz says. “Then the light bulb went on, and they understood what we were doing.”

“Investors want to talk to the leaders of our different business lines,” FedEx’s Smith offers. “Our head of international marketing is well received when he presents at conferences, and our chief economist is well respected in the business community. Investors like hearing from multiple members of management.”

According to Acuray’s Rathjen, most companies would benefit from the enhanced telling of their stories that results from expanding the team that participates in investor relations. “By introducing experts in specific areas, we can provide a broader view of our company and still avoid issues of materiality,” he says. “They add value and understanding to the story, when and where appropriate.”

“If IROs are truly interested in providing the best and broadest level of education to analysts and investors, they will incorporate this strategy into their IR programs,” he continues. “It makes for a much more enhanced telling of your company’s story.”

**Preparation and Presentation**

Aside from the task of coordinating their schedules, preparing managers to tell that story is the greatest challenge that IROs face when adding them to the investor relations roster.

“All members of the executive team that come in contact with investors are briefed on Regulation FD and our disclosure policy as well as our key business messages,” FedEx’s Smith emphasizes. “And we’re always there during meetings to help them deal with any potential issues.”

As a more practical matter, Smith says IROs have to be aware of their junior executives’ level of presentation skills. “They may be great at running their part of the business, but they may not be the best communicators or presenters,” he notes. “We put our executive team through both media and presentation training.

“We also do a lot of work each quarter to develop documents that help them to prepare for conference calls and meetings,” he continues. “We detail the issues that might come up and provide them with approved messaging for responding.”

“I attend all meetings with the Street,” Rathjen says. “I am there to maintain the consistency of the message and make sure the information presented is already in the public domain. I prevent our executives from crossing the line from a disclosure standpoint.”

Ultimately, he believes the focus must be on what companies want investors or analysts to come away with from their meetings with other members of the management team. “You want them to feel like they gained something from that interaction and you want to avoid anything that would be a distraction or distraction from the story,” he explains.

To that end, Office Depot’s Turcotte facilitates mock meetings with executives to review questions that may be asked by investors. “You need to practice beforehand,” he says, “and make sure they understand what’s important and what areas they should stay away from.

“At times, some people may think that I am overly protective in my IRO role, but there’s no room for error,” he continues. “Preparation is key.”

Although he or another IR professional accompany IHS executives to all meetings with the Street, Schultz is a firm believer in advance preparation. “We get together to do practice runs of presentations and query them with expected questions,” he says. “We want them to be helpful to investors, but careful about not disclosing something they shouldn’t.”

“We give them examples of what’s okay to say and why as well as what’s not okay to say and why,” adds Jane Okun Bomba, the IHS chief sustainability, investor relations, and communications officer. “We’ve never had an issue. This ends up being a great experience for both investors and the staff involved.”

To ensure a good experience for everyone participating in meetings with the Street, Chevalier also spends time quizzing Procter & Gamble presenters on the questions that he anticipates getting from investors. “For instance, certain market data might prompt questions, and we want to be sure that our leaders are informed and able to answer,” he says. “We make sure they are informed about both the messages that we want to deliver and the questions investors will want answered.”

When Heinz executives participate in their first meetings with the Street, Nollen makes it a point “to begin the response with prior company disclosures” herself. She says that after three or four meetings, they are usually ready “to take over,” but she cautions them to “stop and think about what they are really being asked” because “every question is not necessarily as obvious as stated; there are nuances.”
Prior to meetings, Nollen also has executives review the sections of call transcripts that pertain to their specific business lines. “We prepare them with everything that’s already been said, which gives them context before the meeting,” she says.

Nollen definitely doesn’t recommend a sink-or-swim approach when introducing new management leaders to the Street. “Don’t bring someone unknown into a meeting with Wall Street alone,” she says. “Pair him or her with an experienced executive.

“When they start going solo to meetings, take them to smaller markets first where investors aren’t as demanding,” she continues. “Go slow.”

In the end, after all the preparation, Nollen says “there’s nothing like actually getting different members of the management team out there with investors. It drives accountability and aligns the entire management team.”

Support and Succession

Even though CEOs are aware of the significant effort that goes into preparing staff for meetings, IROs acknowledge that generally they must be “sold on” the idea of other junior and senior executives speaking to the Street. Their support of such efforts is most often driven by concerns about management succession.

“Our chairman and CEO has identified those members of the management team with high potential who should be gradually incorporated into our investor relations program,” Heinz’s Nollen says.

The CEO’s level of comfort with and support for expanding the traveling team is critical. “Our CEO has to be comfortable with him or her participating,” Accuray’s Rathjen says. “He must have confidence in that executive’s ability to provide additional value within the constraints of Reg FD.”

“We have a very supportive chairman and CEO, who understands and invests in IR,” Okun Bomba says. As such, including other members of the management in talking to the Street has been standard operating procedure since the company did its IPO in 2005.

At that time, Okun Bomba was an IR department of one. She recalls how important it was to demonstrate the depth of the company’s management team. “We wanted to give investors broad exposure to current leadership as well as up-and-comers,” she says. “We wanted them to understand that if and when something goes wrong, there’s an army of people to help guide the company through it.

“It’s a practice that IROs can put in place that has huge payoffs both externally and internally,” Schultz adds. “Externally, it gives investors a much clearer view of your talent base when they hear from experts in different parts of your business.

“Internally, it gives a broader number of employees a chance to show what they know,” he continues, “which helps with employee engagement, career development, and succession planning.”

According to FedEx’s Smith, “senior managers support their staffs participating in meetings and getting experience with presenting to investors. It’s a strong development opportunity for their potential successors.”

“You always have to be prepared for management succession,” he continues. “Every time we bring new managers in to talk with investors, they gain insight on what’s important to the investor public that they wouldn’t have without doing one-on-one meetings.”

“As folks come up through the ranks, it’s important that investors get to know them,” Office Depot’s Turcotte says. “They need to hear from them at an analyst day or during a road show.”

“Let investors get to know the bench that will follow the current leaders in managing the company,” Chevalier says. “Our current CEO had the opportunity to interact with investors before he became the CEO. They were familiar with him and vice versa.”

Fostering familiarity with the management team beyond the C-suite is definitely a priority for FedEx’s Smith. “As we look at speaking opportunities, our team is constantly brainstorming about who would be a good executive to send to this conference or meeting,” he says. “We ask ourselves where the opportunity is to bring in that next level of management. We want to get away from putting the same faces in front of investors every time.”

However, Accuray’s Rathjen cautions that there is a delicate balance between expanding the pool of people who communicate with the Street and not “de-positioning the CEO or CFO.” While he plans to continue adding more people to the company’s traveling team, he acknowledges that the process is a work in progress.

“As new individuals come into the management team, it’s a matter of getting a sense of who can add to the story and gaining further comfort from our CEO,” Rathjen explains. “It’s not about taking his place; it’s about adding value.”

For this reason, among others, Smith says, “Every IRO should be thinking about doing this. Every company is going to deal with management turnover at some point. Bench strength is important, and part of our job is to demonstrate that strength.”

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Cybersecurity presents yet another challenge for corporations as the SEC calls for increased disclosure.

By Daniela Viola
Cybersecurity presents yet another challenge for corporations as the SEC calls for increased disclosure.
As corporate officers and boards get ready for the next round of periodic filings and annual reports, there's a new wrinkle to consider. More work? Unfortunately, yes.

Against the backdrop of an increase in fraudulent activities worldwide, cyber crime has emerged as a major risk. Consider these findings:

- The Ponemon Institute put a price tag of $7.2 million on the average data breach in its 2010 study, "U.S. Cost of a Data Breach."
- According to the 2010 Report to the Nations by the Association of Certified Fraud Examiners (ACFE), the average organization estimated losing 5 percent of its annual revenue to all types of fraud, including cyber fraud. The cost of fraud may total more than $2.9 trillion globally, possibly more, according to ACFE.
- According to PwC’s “Global Economic Crime Survey 2011,” 34 percent of surveyed businesses experienced economic crime in the last 12 months, a 13 percent increase from 2009. PwC also reported that cyber crime now ranks as one of the top four economic crimes and is the biggest fear for 40 percent of surveyed businesses.

Undoubtedly, cyber risk is a fact of life in the digital age and the increasing use of newer technologies such as cloud and mobile is only expected to heighten vulnerabilities. What's more, attackers are becoming more sophisticated and audacious.

Deliberate or unintentional, internal or external, cyber attacks can involve gaining unauthorized access to digital systems, corrupting data, or causing operational disruption to name a few. The objectives of these attacks vary widely and can include theft of financial assets, IP, or other sensitive information from companies, customers, or business partners. Denial-of-service attacks can shut down websites or entire systems and prevent companies from running their businesses and fulfilling their reporting obligations.

Potential negative consequences include:
- Cost for remediation to recover stolen assets and possibly for incentives to maintain business relationships with customers and business partners.
- Increased cybersecurity protection costs (e.g., organizational changes, additional personnel and protection technologies, employee training, third-party experts and consultants, and insurance).
- Lost revenues from unauthorized use of proprietary information or the failure to retain or attract customers following an attack.
- Litigation.
- Reputational damage adversely affecting customer or investor confidence.

**SEC Takes Action**

With millions at stake – not to mention the embarrassment and potential loss of stakeholder trust – this heightened corporate risk has caught the attention of regulators.

On October 19, 2011, the SEC’s Division of Corporation Finance posted disclosure guidance (http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm) relating to cybersecurity risks and cyber incidents. This first-ever staff guid-

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rance exclusively discussing cyber risk is described as “guidance that assists registrants in assessing what, if any, disclosures should be provided about cybersecurity matters in light of each registrant’s specific facts and circumstances.”

The SEC goes on to specify that “although no existing disclosure requirement explicitly refers to cybersecurity risks and cyber incidents, a number of current disclosure requirements may impose an obligation on registrants to disclose such risks and incidents.” In short, the guidelines encourage companies to review, as with other operational and financial risks, on an ongoing basis the adequacy of their disclosure relating to cybersecurity and cyber incidents.

Law firm King & Spalding explained that “this is not a new disclosure rule, nor does it give the SEC authority to regulate a company’s cybersecurity policy.” The idea is that cyber risk disclosure should be part of the risk assessment exercise that companies undertake as a matter of course. The guidelines apply to both U.S. and foreign companies.

**Disclosure Recommendations**

As for complying with the SEC’s position, what needs to be reported is specific to each company. It is not necessary to make detailed disclosures that could compromise cybersecurity efforts by giving a road map to fraud perpetrators.

Some companies have already included a cyber-risk factor in their most recent filings.

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**WHAT CYBERSECURITY RISK DISCLOSURES LOOK LIKE**

**THE LAW FIRM KING & SPALDING** has compiled examples of risk factor disclosures of various industries taken from recent SEC filings. These provide insight into what is disclosed, although requirements may be different for every company.

**MANUFACTURING COMPANY RISK DISCLOSURE**

A cyber attack that bypasses our information technology (IT) security systems causing an IT security breach, may lead to a material disruption of our IT business systems and/or the loss of business information resulting in adverse business impact. Risks may include:

- Future results could be adversely affected due to the theft, destruction, loss, misappropriation, or release of confidential data or intellectual property
- Operational or business delays resulting from the disruption of IT systems and subsequent cleanup and mitigation activities
- Negative publicity resulting in reputation or brand damage with our customers, partners, or industry peers.

**FINANCIAL SERVICES COMPANY RISK DISCLOSURE**

Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our or our clients’ or counterparties’ confidential or other information. If one or more of such events occur, this potentially could jeopardize our or our clients’ or counterparties’ confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients’, our counterparties’, or third parties’ operations, which could result in significant losses or reputational damage to us. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

**GROCERY STORE CHAIN RISK DISCLOSURE**

Our business is increasingly dependent on information technology systems that are complex and vital to continuing operations. If we were to experience difficulties maintaining existing systems or implementing new systems, we could incur significant losses due to disruptions in our operations. Additionally, these systems contain valuable proprietary and financial data, as well as debit and credit card cardholder data, and a breach, including cybersecurity breaches, could have an adverse effect on us.
and legal experts expect that a wave of such risk factors will appear in the coming 10-Ks with companies describing what they have lost and what they stand to lose.

The guidelines direct issuers to the familiar disclosure buckets that may require a discussion of cybersecurity risks and cyber incidents, among them: Risk Factors, MD&A, Description of Business, Legal Proceedings, and the Disclosure Controls and Procedures section. Notably, the Financial Statement Disclosures section has the suggested subsections: “Prior to a Cyber Incident” and “During and After a Cyber Incident.”

In general, as with other items, if cyber issues pose a material risk and/or cybersecurity-related costs materially impact operating results, then they must be described. In other words, spell out any issues that contribute to making an investment in the firm speculative or risky.

Attorneys from Paul Weiss added in a client memo from January 2012 that companies should also consider the impact of any cyber attack on their ability to record, process, summarize, and report information that is required to be disclosed in SEC filings, and – if there is an adverse impact on such ability – whether that renders the disclosure controls and procedures ineffective.

In the Event of an Attack

If a cyber incident occurred that resulted in material costs or consequences that could indicate material future cybersecurity uncertainties, it must be disclosed and described in MD&A and possibly other sections as well. Significant attacks may require an 8-K filing or a press release. In this situation, the changing nature of an ongoing investigation could make it difficult to disclose an attack and it becomes a matter of weighing timeliness and transparency versus not wanting to run the risk of being accused of misleading shareholders.

As with other disclosures it’s important to be specific. At the same time, each company should carefully consider the types of cybersecurity risks it faces. Risk factors will be different for different industries. King & Spalding provides some examples of risk factor disclosure of various industries taken from recent SEC filings. (See sidebar, “What Cybersecurity Risk Disclosures Look Like.”)

However, the SEC encourages companies to evaluate their unique threats rather than rely on a boilerplate approach. A former SEC attorney and digital risk consultant from Stroz Friedberg added that, “the same conflict arises with respect to state notification laws – some states require specificity in the notice while others almost prohibit specificity.”

In addition, since cybersecurity risks and events could impact a company’s financial statements, companies should consider discussing with their auditors the way in which costs related to prevention, remediation, loss recognition, and/or mitigation would be classified.

Boards and directors will want to keep in mind several issues. Cyber risk consultants from Stroz Friedberg caution, “these risks are not going away, and they are also global in scope and constantly evolving,” adding “one challenge for boards that is relatively new is the expectation from shareholders that communication from the company to them be instantaneous and all-inclusive – which includes cyber attack information.”

Adding to the pressure are the Dodd-Frank whistleblower provisions, which reward anyone who reports a lack of disclosure that turns out to be a violation with up to 30 percent of the fine collected.

Threats from non-disclosure can also arise from other sources. For example, securities class-action lawyers could start prowling the Web for cyber attack disclosure and news about company data breaches in an attempt to correlate the two.

Determining Your Approach

Now that the SEC has identified disclosure recommendations, management, boards, audit committees, and legal counsel will certainly be busy figuring out each company’s approach. Experts recommend asking the following questions when tackling this complex set of risks:

• How do we assess our cyber risk?
• Did we have a breach? When?
• To what extent?
• Do we have a whistleblower policy?

On a broader note, PwC counsels clients to take proactive measures to protect their organizations against economic crime:

• Know who you are dealing with – staff, suppliers, partners, and agents.
• Align IT, internal audit, and the board in the fight against economic crime.
• Conduct regular fraud risk assessments.
• Cultivate leadership at the top with a cyber-savvy CEO who instills a cyber risk-aware culture.
• Implement a cyber crisis response plan.

Finally, seek advice of counsel in evaluating corporate policies regarding cybersecurity and compliance with the SEC’s guidelines. Further, board members and management teams need to stay alert to legislation that could be enacted as early as this year according to a panel of experts who participated in an April 2012 webinar hosted by Nasdaq OMX. The webinar covered various aspects of proposals by Congress for legislation on data security and the timing of breach notification.

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NIRI Releases Standard of Practice for Investor Relations Vol. III – Disclosure

NIRI has issued Standards of Practice for Investor Relations Vol. III – Disclosure, comprehensive guidelines designed to reflect current best practices in all forms of corporate disclosure.

These new voluntary guidelines replace NIRI’s 2004 edition and are updated to reflect innovations in disclosure practice incorporating such developments as the influence of the U.S. Securities and Exchange Commission’s guidance on website disclosure, social media compliance concepts, and recent case law.

NIRI began setting standards for the investor relations profession in 1996 with Standards and Guidance for Disclosure, and continued with a 1998 edition renamed the Standards of Practice for Investor Relations, followed by the 2001 and 2004 editions. Now, thousands of investor relations and other corporate executives use this reference for guidance on disclosure and interaction with analysts and investors. It is also a popular reference for securities lawyers.

Highlights of the new 80-page document include chapters devoted to The Investor Relations Practitioner as “Chief Disclosure Officer”; Disclosure Concepts and Theories; Disclosure Laws and Rules; Forming a Disclosure Committee; Writing a Disclosure Policy; Structured Disclosure — SEC and SRO Requirements; Voluntary Disclosure Methods; and Court Decisions That Have Shaped Disclosure.

These guidelines represent one component of NIRI’s broader Standards of Practice for Investor Relations series, which is available on the NIRI website (www.niri.org/StandardsOfPractice.aspx).

More in-depth information is available by watching NIRI’s IR Today Web video episode devoted to this topic via either the NIRI website (http://www.niri.org/media/Videos.aspx), or the NIRI YouTube Channel (http://www.youtube.com/NIRINational).

NIRI thanks the members of the Working Group on Disclosure for their time, energy and expertise: Derek Cole, Board Chairman, National Investor Relations Institute; Mary Beth Kissane, Principal, Walek & Associates; Jane W. McCahon, Vice President – Corporate Relations, Telephone and Data Systems, Inc.; and Maureen Wolff, President & Partner, Sharon Merril Associates, Inc.

NIRI also acknowledges the assistance of attorneys who contributed to this document: Brian Breheny, Skadden, Arps, Slate, Meagher & Flom LLP; Stephen Cooke and Michael Zuppone, Paul Hastings LLP; Brent Fassett, Cooley LLP; Andrew Moore, Perkins Coie LLP; Lawrence Levin and Maryann Waryjas, Katten Muchin Rosenman LLP; and Frank Zarb and Liz Crimer, Proskauer Rose LLP.

NIRI members may access an electronic version on the Standards of Practice page of the NIRI website (www.niri.org/StandardsofPractice.aspx). Members and nonmembers may purchase a printed version at www.niri.org under “Resource” and “Publications.”

On the Move

Ira M. Gostin was promoted to vice president, investor relations, at Tahoe Resources. He joined the company in January 2010 as the business director and was instrumental in establishing the company. Gostin previously worked as a consultant specializing in strategic development and advised public companies regarding communication and annual reports. He was also an adjunct professor of journalism at the Reynolds School of Journalism, University of Nevada, Reno, and a Pulitzer Prize-nominated photojournalist with the Associated Press.

Thomas Morabito has launched a new full-service IR firm, Park Avenue Investor Relations. Before creating Park Avenue, he held senior IR roles at The TJX Companies, Developer’s Diversified Realty, and Paetec Communications. Previously, he was a top-ranked equity analyst with BB&T Capital Markets, KeyBanc Capital Markets, and Susquehanna Financial Group.

Please send “On the Move” announcements to IR Update Editor-in-Chief Al Rickard at arickard@associationvision.com.

NIRI Fastrack Brings New IROs Up to Speed

IS SOMEONE in your organization new to IR or in a rotational position? The IR Fastrack Membership Package combines membership and education for a comprehensive IR experience. This includes NIRI’s highly rated “Fundamentals of IR” seminar plus other critical education – and the benefits of membership. With savings of more than $700, IR Fastrack provides both resources and value. For more information, go to www.niri.org/join.
Quick Takes
What’s your best advice for conducting a successful road show?

Andrew M. Kramer
Senior Director, Investor Relations & Corporate Development Interactive Data

▶ “Be prepared in terms of your logistics, targeting, and message. Your road-show activity should be guided by a focus on the desired outcome. Logistically, make sure you haven’t overlooked the details that can make for smooth travel and meetings. From a strategic planning perspective, make sure the firms you plan to see match well with your IR goals. Message-wise, stick to your script and make sure feedback and information is captured and circulated among your team, senior management, and the board as appropriate.”

Jennifer Driscoll
Vice President of Investor Relations
Campbell Soup Company

▶ “Call your largest holder in the market and ensure the date works for them. Then build the other meetings around that commitment. Also spend time planning key messages and hot topics before you go, and bring a handout so it focuses [attendees] on your key points versus a free-for-all.”

Jill L. Baker
Corporate Vice President, Investor Relations
PAREXEL International

▶ “Start planning at least four months prior to the event. Hire an IR consulting firm to help develop messaging and provide critiquing of the presenters from an outside expert. Hire an outside design firm to develop the slides so there is consistency amongst all presentations. Rehearse, rehearse, rehearse.”

“Quick Takes” is a new column in IR Update that features brief comments from IR professionals in response to a question. If you would like to be featured in this column, contact IR Update Editor-in-Chief Al Rickard at arickard@associationvision.com.

Professional Development Calendar
For program information and registration, visit www.niri.org/calendar

June 2012
2 Writing Workshop for IR seminar, Seattle, WA
3-6 NIRI Annual Conference, Seattle, WA
19 Healthcare Industry webinar
25 Crisis Communications and Media Management seminar, New York, NY
26 Finance 101 seminar, New York, NY
27-28 Finance Essentials for IR seminar, New York, NY

July 2012
10 Financial Services webinar
24 Road Shows Part I: Preparing to Go webinar

August 2012
7 Road Shows Part II: On the Road webinar
14 Media Part I: Targeting the Media and Pitching Your Story webinar
20 Finance 101 seminar, San Francisco, CA
21-22 Finance Essentials for IR seminar, San Francisco, CA
23 Think Like an Analyst! seminar, San Francisco, CA

September 2012
9-12 Fundamentals of Investor Relations, Boston, MA
13 Regulations 101 seminar, Boston, MA
14 Creating Powerful Investor Presentations seminar, Boston, MA
18 Media Part II: Managing the Media webinar

October 2012
9 Media Part III: IR’s Role in Crisis Communications webinar
23 Using Numbers to Tell Your Story webinar
eGroups Buzz

NIRI eGroups continually discuss questions and comments about all aspects of investor relations. Excerpts of a recent eGroup discussion are featured here. Titles but not the names of participants are shown.

Subject: Stock Split Effectiveness

Question: “Does a stock split really help your liquidity? In theory a stock split will increase your float, but the dollar value of what your company trades every day doesn’t really change — so in practice your liquidity, based on trading volume, doesn’t change. Am I missing something? I do understand that a lower stock price may have an effect on your bid-ask spread, but is this meaningful? For a company with low float and low average daily volume, does a split make sense? I am interested in opinions and/ or references that I can learn from that will help me answer this question.”

— Director of Investor Relations and Corporate Marketing

GOOD ASSESSMENT. You’re not confusing “volume” and “liquidity,” a frequent malady in markets. They are not the same things. It could be argued that a reverse split to increase price and decrease volume is more advantageous than a stock split (and would lower fees paid to transfer agents and exchanges).

Low spreads help 30-second investors, but not 3-year investors. Low spreads encourage exploitation of the “maker taker” construct in markets today where fees are charged by exchanges for removing, or taking, shares, but rebates are paid to add, or provide, liquidity. Tight spreads make it possible for trading intermediaries to continuously earn rebates. [An] HFT clearing firm yesterday announced that it would open up its rebate-earning architecture to the buy-side trading directly so that now institutional money can also pursue trading rebates (which it already does anyway).

And I’d add to your good points that even buybacks principally benefit high-frequency traders, intermediating the effort. If one share of stock passes through 10-12 intermediaries every second or so, each of which nibble off a penny, as a broker works a VWAP algorithm strategy to effect your repurchase, the real cost of a repurchase to shareholders is enormous. Better to simply pay a dividend straight to holders and skip all the market intermediation. — Managing Director

I AGREE WITH all of the comments above. I would only add that in my experience, splitting your stock can send a positive signal to the market that you are bullish on your company’s outlook and prospects going forward. — Founder and CEO

IF YOU'RE LOOKING to increase retail ownership, a stock split is probably beneficial, but institutions, with larger sums available to invest, are more or less impervious to high prices per share. I’ve heard claims that higher prices per share help limit day-trading/high-volume trading, but I’ve never seen any research that confirms that speculation. — Principal

THERE IS SOME value for the algorithms in there being more shares even if the dollar value is the same. For very pricey stocks, a stock split definitely helps retail investors want to buy/sell. So it does help volume in some ways. — Head of Investor Relations

THE ONLY PRACTICAL reason for a stock split is to lower the price in order to attract new shareholders. If one’s stock price gets too high, it simply might not be affordable for some prospective new shareholders. If your float is restricted you may want to increase it. There are a lot of ripple effects, including those already mentioned, but it’s a far easier way to accomplish the goal than doing a secondary offering. — Partner

I AGREE WITH your skepticism. To add to it, why does a tighter spread benefit you (i.e. your company) unless you’re buying back massive amounts of stock and you can measure the implications of the difference in spread before and after the split? What is highly measureable is the huge increase in transfer agent costs you will incur for the one-time split, plus, possibly, in the future with more odd-lots, mailings, etc. — Director, Investor Relations

Respect the NIRI Community at the Annual Conference

NIRI APPRECIATES THE support that sponsors and exhibitors provide at the NRI Annual Conference. Accordingly, only exhibiting companies may engage attendees in the exhibit area. Attendees have been asked not to accept invitations to events from vendors not sponsoring or exhibiting at the conference. Vendors not sponsoring or exhibiting should not promote their products or services. Please respect our community and notify NIRI staff of violations at communications@niri.org.
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For membership criteria, a sample meeting agenda, and to apply go to [www.niri.org/srt](http://www.niri.org/srt)