Research Survey
of
Stock Repurchase Programs

Prepared for ________

February 20, 2006
Executive Summary

Management of ______ Inc. on Feb. 9, 2006, requested an informal, third-party research project to provide input to ________, Chief Financial Officer, for her assessment of whether the company should conduct a stock repurchase program and, if so, what structural approach the company should take. With extensive input and guidance from ________, Director of Investor Relations and Corporate Communications, The Allen Group examined the subject from three viewpoints:

- Opinions and input gathered from existing ______ institutional shareholders;
- Research on what ______ industry peers were doing for such programs;
- Research on what the marketplace in general was doing for such programs.

The research consisted of telephone interviews with ______ institutional shareholders, online research into buyback activities of a list of 35 industry peer companies, and research into all programs announced by U.S. public companies since the beginning of December, 2005.

The results of this research can be summarized as follows:

- ______ shareholders firmly believed a stock buyback program would be a good use of cash and trusted management to execute properly.
- Institutional shareholders overwhelmingly preferred an opportunistic buyback program, rather than a scheduled 10b5 type of program.
- About 77 percent of ______’s industry peers are not conducting buyback programs.
- Of the 23 percent of peer companies who do presently have programs in place, the vast majority conduct opportunistic repurchases of stock.
- In a sampling of 50 companies from among 190 who had announced buyback programs between Dec. 1, 2005 and Feb. 10, 2006 (when this project was begun), 88 percent conducted opportunistic repurchases of their stock, while only eight percent used a formal 10b5 program.
- Among these 50 companies, 56 percent had announced new buyback programs, with the remainder being expansions of existing programs (and in some cases a combination of the two).
- Virtually all companies who implemented buyback programs used some form of limit on repurchases, which typically included:
  - Specific time schedules for the duration of the programs;
  - Maximum numbers of shares to be repurchased;
  - A maximum dollar amount to be spent on repurchases;
  - Price thresholds for buying back shares;
  - A maximum percentage of shares outstanding that would be purchased.
Part 1: Survey Results from Institutional Holders of ____ Stock

While we would have preferred a higher level of involvement from analysts and portfolio managers who already follow ____ or hold the company’s stock, we did reach about 20 percent of buy-side institutions on the list supplied by ____. Here are their general responses to questions about stock repurchase programs, followed by notable comments.

- Regarding buy-side opinions of buyback programs in general, the response was unanimous that ____ should implement such a program. There were multiple reasons offered:
  - It gives insight into what management feels about their current status.
  - It’s a vote of confidence in the future.
  - Portfolio managers like to see how aggressive the company is because it makes them ask “What do they see that we don’t see?”

- Regarding alternative uses of cash, there were several thoughts expressed, but they all supported a stock repurchase program. Selected comments from interviews:
  - Dividends are tax inefficient.
  - ____ should do accretive acquisitions, but only if they make sense.
  - The company has invested well in organic growth.
  - The company has a solid R&D program already and it’s yielding excellent results; the pipeline is full.
  - ____ has already spent well in past downturns to take advantage of future upturns, and has consolidated its leadership position.
  - ____ runs the risk of being an acquisition target itself.

- Regarding how to structure a buyback program, 83 percent of the respondents felt it should be an opportunistic program, assessing current market conditions and ____’s stock price to determine whether there would be a sufficient return on capital to warrant implementing a program. The remainder felt it should be a 10b5-1 program under which shares would be purchased on a regularly scheduled basis, during normal open windows, to avoid any hindsight concerns about “what did they know and when did they know it?”

- Regarding the timing of purchases, all respondents said they trusted ____ to manage purchases so as to get the best price/volume mix. They felt, in general, that management knows its current position and outlook better than the market does, therefore they would trust management to exercise the same judgment in the use of cash outlay as they do in their running of the business.
- There were a few cautions expressed, however:
  
  - Don’t let shares outstanding get too low
  - Don’t let book value shrink too much since there’s always a downturn.
  - It might be better to simply invest the cash and wait for a lower share price in the next downturn.
  - “Keep your powder dry.” I.e., try to buy only in down cycles and keep your cash available for when you need it (in a downturn), for whatever purpose.
  - Don’t give it all back to employees in the form of option shares.
Part 2: Research Results for Industry Peer Programs

We researched 35 companies in the semiconductor and related industries to determine what others in _____’s peer group have done or are currently doing in repurchase programs. (The list of peer companies was provided by ______.)

Of the group, 27 had no buyback programs and hadn’t used them in the past. The majority were small and mid-cap companies and most were not currently (or barely) profitable, thus there didn’t appear to be need for repurchases. There were several other reasons given for not doing buybacks, among them:

- Repurchase of existing convertible notes, but not within a buyback program;
- Acquisition and retirement of senior debt;
- Recent completion of a merger;
- Recent completion of a 3-million share private placement;
- Recent implementation of a 3-for-2 stock split.

Six companies are currently implementing stock buyback programs, all using an opportunistic approach to repurchases. A seventh company has used a “Dutch Auction” technique to repurchase stock (which closed on 12/23/05).

Five of the six are presently doing buybacks in programs that end concurrently with their fiscal year-ends in 2006, 2007 or 2008. All have set specific targets for repurchasing specific numbers of shares or for the maximum amount of cash to be spent in the program. The size of the share or dollar volume appears to be in direct proportion to the market cap size of each company.

A seventh company is presently considering implementing a repurchase program during 2006 and is reviewing projections for cash needs for acquisitions and/or R&D programs before deciding whether to implement a program.
Part 3. Research Results for the General Marketplace

An online search of public filings determined that at least 190 publicly-held U.S. companies announced stock buyback programs during the period from December 1, 2005 through February 10, 2006 (when this research project was started). We culled a sample of 50 corporations from this total and studied what their approaches were to buyback programs. Of the companies selected, 24 were mid-cap companies and 26 were large-cap.

The selected companies fell into four representative categories:

- Twenty were from high technology industries, including semiconductors and electronics, biomedical and software;
- Twelve were industrial companies (manufacturing and process);
- Ten were in service industries, including banking and insurance;
- Eight were in consumer-related industries.

Of the list of 50 companies:

- Forty-four of them conducted opportunistic buybacks;
- Only four conducted 10b-5 plan buybacks;
- One held a Dutch auction (with stock tendered when the price was greater than $56);
- One pursued a combination of plans – one a 10b-5 plan and the other an opportunistic one – to reach a total of 100 million shares in its repurchase program;
- Seventeen of the companies imposed a time deadline (usually at the end of a calendar year, typically 2006, 2007 or 2008);
- One company with a 10b-5 plan reserved the right to end the program at any time, without notice;
- All 50 companies imposed an upper end limit on their buyback programs, usually in the number of shares they would buy back or on the dollar amount they would spend on the program;
- One company limited buybacks to times when shares were at a minimum 10 percent discount;
- Twenty-eight of the programs were new buyback programs;
- Twenty-four were expansions of existing programs (and two companies instituted new programs while expanding an existing one).