

Market News

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A monthly review of IR developments for our clients and friends. . .

Restatements down for the third consecutive year

For the third consecutive year, corporate restatements of financial results dropped year-over-year in 2009. Last year, 630 companies filed 674 restatements, according to a survey by research firm Audit Analytics, which is 27 percent lower than the number of restatements filed in 2008. In 2006, the last year the number of restatements increased from the previous year, 1,564 companies filed 1,795 restatements. Experts credit improved internal control brought on by Sarbanes Oxley, combined with relaxed requirements for the diminishing number of restatements. The severity of restatements also declined for companies on major stock exchanges, with 232 companies restating in 2009 writing down an average \$4.6 million from net income, off from 301 companies taking an average \$7.1 million from their net income in 2008. Both years showed a vast improvement from 2002, when restatement write-downs were at a high with the average at \$76.5 million. The survey also showed that restatements are getting faster, and perhaps procedurally easier. The average company takes 10.4 days between its initial announcement to restate until filing the restatement. That's down from 17.6 days in 2008 and 20 days in 2007. Seventy-one percent of the companies issuing restatements in 2009 were non-accelerated filers.

Buybacks make a strong comeback

As the economy floundered, the quarterly volume of buybacks plummeted in the first quarter 2009 to \$12.3 billion from nearly \$50 billion in the fourth quarter 2008, according to data from Dealogic. But the fourth quarter 2009 saw a strong rebound, with the buyback dollar volume hitting \$170 billion. The trend continues with \$97.9 billion of buybacks announced to date in the first quarter of 2010. PepsiCo is leading the way, announcing March 15th a seven percent, or \$15 billion share buyback by June 2013. The experts say that this revitalization is a sign that companies are starting to breathe a sigh of relief, believing the economic turnaround is in place and the credit markets are reviving. On the other hand, some question share buybacks after the markets have made healthy gains. Many stocks are nearing their fair value, with the S&P 500 index up 42 percent from a year ago and its collective P/E ratio at 22.9 percent.

IR awards congratulate the professions' best

IR Magazine's awards for best overall investor relations were handed out in New York ceremonies last week. Life Time Fitness won in the small-cap category, Covance among mid-caps, Express Scripts for large caps, and JPMorgan Chase & Co. for mega-caps. Named best investor relations officer among small caps was Ken Cooper of Life Time Fitness. Paul Surdez of Covance won in the mid-cap category, David Myers of Express Scripts was top-rated among large caps, and Kevin Stitt and Lee McEntire of Bank of America were named best among mega caps.

Clarification needed on how to measure goodwill impairment

Sixty-eight percent of 6,000 public companies polled by the Financial Executives Research Foundation wrote down \$260 billion in goodwill impairment charges in 2008 under Topic 350 (formerly FAS 142). But impairment write-downs have diminished dramatically since then, while auditors' question how to most accurately measure goodwill—via the company's enterprise value, or fair value? SEC Chief Accountant Evan Sussholz said the enterprise value of a company is the most accurate measurement because it includes debt. The Financial Accounting Standards Board, however, and the American Institute of Certified Public Accountants (AICPA) want to determine whether additional guidance and change is needed on the formula to measure values for goodwill impairment charges.

Insider trader rings penetrate IR firms

The FBI has broken up an insider trading scheme carried out by employees of two investor relations firms. They arrested Ahmad Haris Tajyar, owner of Investor Relations International Inc., in Sherman Oaks, Calif., and Zachary Bryant, who worked at Lippert Heilshorn & Associates, a New York IR firm. Bryant allegedly tipped Tajyar in advance of announcements made by Lippert's clients, including Connetics Corp, Medivation Inc. and Halozyme Therapeutics Inc. Three other defendants were accused of profiting illegally from inside information from Tajyar. Also, a UBS AG investment banker charged with insider trading told the FBI that he accepted money from an accomplice in exchange for confidential tips on UBS acquisitions. Igor Poteroba was arrested over allegations that he and a friend made \$870,000 in illegal profits from trades on tips about six UBS healthcare client acquisitions. If convicted, the men could face up to 20 years in prison and be fined \$5 million.

Interested in sitting on a board?

According to compensation firm Equilara, independent directors on Fortune 500 companies averaged \$182,102 in annual compensation in 2009 before fees for sitting on special committees. BDO Seidman surveyed companies below \$1 billion in revenue, and found independent directors of those companies earned anywhere from \$40,000 to \$140,000, depending on the company's stage and industry.

Inspector General report raises red flags over SEC investigations

As the Securities & Exchange Commission (SEC) faces intense scrutiny of its regulation of public companies and financial firms, its Inspector General is questioning the undue influence on cases by former senior SEC employees. It cites a specific probe into an investment firm for overstating the value of its holdings. The probe was triggered when a hedge fund manager said in a speech that he would short the investment firm's stock because statements overvalued its holdings. In response, the investment firm initiated a public relations campaign against the hedge fund manager and urged the SEC to investigate whether he was engaged in illegal behavior to undermine their share price. The agency did investigate the hedge fund manager, but quickly determined no illegal activities had transpired. The bureau chief heading up the investigation then left the agency to join a Washington law firm retained by the investment firm. After a two-year investigation, the SEC found that the investment firm had, in fact, overstated the value of its holdings, but, according to the report, the former bureau chief persuaded the SEC not to pursue fraud charges against the investment firm, but to settle for more modest charges without monetary penalties.



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