Supplemental Appendix to:

**Knowledge, Compensation, and Firm Value: An Analysis of Firm Communication**
Feng Li, Michael Minnis, Venky Nagar, and Madhav Rajan
November 2012

This online appendix contains additional data description and analysis for the paper, “Knowledge, Compensation, and Firm Value: An Analysis of Firm Communication.” It has four sections:

Section 1: Detail on the construction of the Percentage CEO Text variable
Section 2: Supplemental Tables
Section 3: Survey of Investor Relations Executives
Section 4: Anecdotal Examples from a Random Sample of Conference Calls

The conference call data used in this project can be downloaded at:
http://webuser.bus.umich.edu/feng/

**Section 1: Construction of the CEO Text Variable**

This section provides additional details regarding the construction of the Percentage CEO Text variable. As tabulated in Table 1 of the paper, we obtained over 129,000 conference call transcripts compiled from January 2001 to September 2008 by ThomsonReuters. We first eliminate any conference calls with foreign characters and focus exclusively on earnings conference calls. Earnings conference calls have the advantage in our setting in that they almost always follow a consistent format across firms: an opening dialogue by company executives followed by a question-and-answer session between analysts and company executives. Non-earnings related conference calls which we eliminate are generally presentations made at conferences or are conference calls for special events, such as mergers and acquisitions. We eliminate these transcripts to control for special one-time items and to ensure a consistent format for the transcript. Transcripts in the initial years of the database (2001-2002) are inconsistently formatted, so we eliminate these as well. Finally, because we require compensation data for our analysis, the most significant single reason for eliminating conference calls from the sample is the lack of ExecuComp data. From the original sample of conference calls, we ultimately use the data from 17,419 transcripts.

For each conference call, we use FORTRAN code to parse the text and identify the date of
the call, the name and ticker symbol of the firm, and whether the call related to an earnings report. In addition, each time a person spoke during a conference call, the transcript reports the name and title of the individual who spoke. We then determine the amount of speech (both the number of times that a person spoke as well as the number of characters spoken) for each individual on the conference call by title. Our primary measure of CEO knowledge is the amount of text spoken by the CEO as a percentage of text spoken by all company personnel on the conference call.

Our coding procedure eliminates any transcripts from the sample for which we cannot identify all speakers during the conference call. This occurs for at least three reasons: 1) the transcript explicitly stated that a speaker was unidentified; 2) our code was unable to properly parse the name and title for the speaker; or, 3) analysts were not labeled with an “Analyst” title and, therefore, we could not identify them as such. As these reasons for omitting conference call observations are not systematically related to our analysis, our results should be unbiased, but may have reduced power.

The conference calls are typically quarterly events; however, most other variables that we use in this study are measured on an annual basis. We therefore convert the conference call data to annual observations by averaging across all conference calls for a firm within a fiscal year. To be precise, we calculate the percentage of talking conducted by the CEO for each conference call within a year and average this value across all valid conference calls for the firm in that year. We assign any conference call occurring after the third month of the fiscal year through the third month of the following year to that fiscal year — i.e., we assume that the conference calls occur

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2 We received the transcripts in XML (Extensible Markup Language) formatting. XML provides “tags” to identify elements of the transcript. In particular, we use XML tags to identify the company name, date of the conference call, type of conference call (e.g., earnings, conference presentation, etc.), company ticker symbol, and body of text.

3 While the transcript reports the title of the individual speaking, there is by no means a consistent set of titles across all firms. We identified over 16,000 unique titles for individuals who spoke at least once on the conference calls. Because it is important to our study that the executive positions are identified correctly, we manually examined each of the titles and grouped the more than 16,000 unique titles into one of nine major title groupings: CEO, CFO, Operations, Functions, Investor Relations, Other, Analyst, Operator, and Unknown. As the CEO and CFO conduct a majority of the conference call, we focus our reported statistics on these two roles.

4 In the properly parsed conference calls, analysts were identified in the transcript by their name, firm name, and the title of “Analyst.” However, conference call transcripts also identified analysts by their name and firm name only, omitting the title of “Analyst.” Therefore, when the transcript was parsed, the title variable was missing and we were unable to identify the position of the individual without examining each transcript manually.

5 In untabulated results, our findings are robust to including conference calls that were dropped because an individual was unidentified (we made the assumption that the unidentified speaker was a non-CEO company employee).
with up to a three month lag following the quarter close. After this procedure, there are 6,862 firm-year conference call observations. We further eliminate firm-year observations with insufficient data from all other data sources resulting in a total of 3,881 firm-year observations without CEO education data and 3,331 with CEO education data.  

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6 Bowen et al. (2002) find that 75% of the conference calls in their large sample occur in the 9 day window surrounding the quarterly earnings announcement. Even after applying our filtering procedures, some firms still had more than 4 earnings conference calls in a given year. The reason for this is that when an acquisition takes place, the historical transcript of the acquired firm is identified by the ticker symbol of the acquiring firm. Therefore, acquiring firms’ Percentage CEO Text variable may include data from acquired firms’ transcripts. We attempt to mitigate this noise by eliminating any conference calls that occur in the same month for the same firm. In addition, as a robustness check, we eliminate firm-years with more than 4 earnings conference calls and our findings are virtually identical.

7 We matched each conference call to an ExecuComp firm based on the ticker symbol as reported in the conference call transcript. This approach matched approximately 1,500 firms. We were also able to match approximately 200 additional firms by hand. Subsequently, the firms were matched to Compustat (gvkey), CRSP (CRSP-Compustat link) and RiskMetrics (Cusip) datasets. However, we were unable to find a match for all firms in each of these datasets, resulting in the elimination of some firm-years as detailed in Table 1.
Section 2: Supplemental Tables

This section includes various robustness tests and additional cross sectional analyses which accompany the main results tabulated in the paper.

Table A1: Percentage CEO Text by Partitions of Various Proxies for CEO Knowledge

Table A2: Percentage CEO Text by Number of Industries within the Firm

Table A3: Table 5 Regression Including the Number of Industries within the Firm

Table A4: Cross Sectional Test of CEO Communication Patterns based on the Extent of Analyst Involvement
Table A1: Percentage CEO Text by Partitions of Various Proxies for CEO Knowledge

Panel A - CEO Education Level

<table>
<thead>
<tr>
<th>Education level</th>
<th>Percentage CEO Text</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>45.07</td>
<td>1205</td>
</tr>
<tr>
<td>High</td>
<td>47.64</td>
<td>2126</td>
</tr>
<tr>
<td>Diff</td>
<td>2.57***</td>
<td></td>
</tr>
<tr>
<td>Welch's t-stat</td>
<td>[3.17]</td>
<td></td>
</tr>
</tbody>
</table>

Panel B - Difference between CEO and Subordinate Education Level

<table>
<thead>
<tr>
<th>Difference</th>
<th>Percentage CEO Text</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>45.36</td>
<td>1359</td>
</tr>
<tr>
<td>High</td>
<td>47.71</td>
<td>1323</td>
</tr>
<tr>
<td>Diff</td>
<td>2.35***</td>
<td></td>
</tr>
<tr>
<td>Welch's t-stat</td>
<td>[2.68]</td>
<td></td>
</tr>
</tbody>
</table>

Panel C - CEO Accounting Certification

<table>
<thead>
<tr>
<th>Accounting Certification</th>
<th>Percentage CEO Text</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>46.52</td>
<td>3122</td>
</tr>
<tr>
<td>Yes</td>
<td>49.56</td>
<td>209</td>
</tr>
<tr>
<td>Diff</td>
<td>3.04*</td>
<td></td>
</tr>
<tr>
<td>Welch's t-stat</td>
<td>[1.89]</td>
<td></td>
</tr>
</tbody>
</table>

Panel D - Employee Size and R&D Intensity

By Number of Employees and R&D Intensity

<table>
<thead>
<tr>
<th>Number of Employees Quintile</th>
<th>R&amp;D Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>1</td>
<td>52.02</td>
</tr>
<tr>
<td>2</td>
<td>49.66</td>
</tr>
<tr>
<td>3</td>
<td>49.20</td>
</tr>
<tr>
<td>4</td>
<td>44.28</td>
</tr>
<tr>
<td>5</td>
<td>39.91</td>
</tr>
</tbody>
</table>

This table presents descriptive statistics of the percentage of time that the CEO speaks relative to other executives on earnings conference calls. Panel A presents data by the CEO's education level: Low indicates either no degree, technical degree, associates degree, or bachelor's degree; High indicates a masters degree, J.D., M.D., or Ph.D. Panel B bisects the sample based on the CEO's education relative to the average subordinate. Low indicates that the CEO has a lower level degree relative to the average subordinate; High indicates that the CEO has a higher level degree than the average subordinate (firm-years in which there is no difference in the CEO's and average subordinate's degrees are omitted). Panel C bisects the sample based on whether the CEO has an accounting certification (Certified Public Accountant or Chartered Accountant). Panel D is a two-way tabulation based on the number of employees and R&D Intensity. Because most of the variation in R&D intensity is in the upper tail of the R&D distribution, we classify High R&D intensity as those firm-years in the top decile of R&D/Sales.
### Table A2: Percentage CEO Text by Number of Industries within the Firm

<table>
<thead>
<tr>
<th>No. of Industries</th>
<th>1-digit SIC code</th>
<th>2-digit SIC code</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage CEO Text</td>
<td>N</td>
</tr>
<tr>
<td>1</td>
<td>47.72</td>
<td>1,763</td>
</tr>
<tr>
<td>2</td>
<td>47.65</td>
<td>1,402</td>
</tr>
<tr>
<td>3</td>
<td>44.10</td>
<td>450</td>
</tr>
<tr>
<td>&gt;4</td>
<td>38.27</td>
<td>137</td>
</tr>
</tbody>
</table>

This table provides an analysis of CEO participation on earnings conference calls by the number of industries that the firm belongs to.

### Table A3: Table 5 Regression Including the Number of Industries

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coef. (1)</th>
<th>Coef. (2)</th>
<th>t-stat (1)</th>
<th>t-stat (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Industries Indicator</td>
<td>-1.583</td>
<td>-3.723*</td>
<td>[-0.84]</td>
<td>[4.94]</td>
</tr>
</tbody>
</table>

**Knowledge Transfer Costs**

- R&D/Sales: -29.945*** [-3.65]
- LN(Employees): -2.339*** [-3.36]
- New CEO: -2.366** [-1.97]
- CEO Last Year: -5.228*** [-4.77]
- Participants: -2.848*** [-4.92]

**Control Costs**

- PPS Alignment: -0.762*** [-2.76]
- LN(Audit Fees): 2.935*** [3.37]
- Regulated Industry: -10.262*** [-4.06]

**Firm characteristics and Controls**

- Board Size: -0.256 [-0.78]
- LN(Assets): -3.522*** [-4.67]

Other controls from Table 5 included? Y Y

Industry FE? N N
Year FE? Y Y

Adj. R2 0.165 0.057
N 3627 3752

This table presents the results from Table 5, Panel A with the inclusion of "Number of Industries Indicator". This variable equals 1 if the firm participates in more than 2 industries; 0 otherwise. Industries are defined at the 1-digit SIC level.
### Table A4: Cross Sectional Test of CEO Communication Patterns based on the Extent of Analyst Involvement

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>High</th>
<th>Low</th>
<th>t-stat</th>
<th>t-stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Education Level</td>
<td>5.132***</td>
<td>0.675</td>
<td>[4.22]</td>
<td>[0.65]</td>
</tr>
<tr>
<td>CEO Accountant Certification</td>
<td>7.263***</td>
<td>2.493</td>
<td>[1.98]</td>
<td>[0.89]</td>
</tr>
<tr>
<td>New CEO</td>
<td>-3.358*</td>
<td>-1.694</td>
<td>[-1.86]</td>
<td>[-1.09]</td>
</tr>
<tr>
<td>R&amp;D/Sales</td>
<td>-41.440***</td>
<td>-23.425**</td>
<td>[-3.62]</td>
<td>[-2.33]</td>
</tr>
<tr>
<td>LN(Employees)</td>
<td>-3.074***</td>
<td>-2.252***</td>
<td>[-3.13]</td>
<td>[-2.95]</td>
</tr>
<tr>
<td>Participants</td>
<td>-2.530***</td>
<td>-3.788***</td>
<td>[-3.30]</td>
<td>[-5.36]</td>
</tr>
<tr>
<td>Task control variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LN(Audit Fees)</td>
<td>2.083</td>
<td>2.967***</td>
<td>[1.54]</td>
<td>[2.88]</td>
</tr>
<tr>
<td>Incentive Alignment</td>
<td>-1.320***</td>
<td>-0.202</td>
<td>[-3.42]</td>
<td>[-0.58]</td>
</tr>
<tr>
<td>Industry FE?</td>
<td>N</td>
<td>N</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year FE?</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R2</td>
<td>0.167</td>
<td>0.193</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>1678</td>
<td>1653</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This table presents the results from Table 5, Panel A, Column 2 after partitioning the sample into two groups: firm-years with high levels of analyst involvement (more than the median number of analyst questions) and firm-years with low levels of analyst involvement (below the median number of analyst questions). Other control variables reported in Table are included in the regression, but are not reported for brevity. See Appendix A for variable definitions. Reported below the coefficients are heteroskedasticity consistent t-statistics, clustered at the firm level. *, **, *** indicate significance at the two-tailed 10%, 5%, and 1% levels, respectively.
Section 3: Survey of Investor Relations Executives

On Wednesday, August 15, 2012, the University of Michigan Ross School of Business hosted an executive education course titled, “Theory and Practice of Investor Relations.” The audience was investor relations executives. During the course, we presented the attendees with a short survey inquiring about their experiences with earnings conference calls. The objective of the survey was two-fold: 1) to collect general evidence of the degree to which CEOs delegate responses on conference calls when they lack sufficient knowledge; and, 2) to provide a sense of perspective from IR professionals relating to the spontaneity, or dynamics, of a conference call. Fourteen executives attended the course and we received eight responses. We provide a narrative summary of the results below, followed by the survey instrument, and the tabulated results.

Narrative summary of the results:

- First, the response from question 1 indicates that the distribution of CEO speaking as stated in the survey is similar to the empirical distribution reported in the paper in Table 2, Panel A. In particular, the survey reports that CEOs answer approximately 49% of the questions, CFOs answer 32%, and all other participants answer 19% – an exact mapping to 49%, 32%, and 19% as measured by the number of comments in Table 2.
- The responses to the survey question 2 reveal that there appears to be heterogeneity in the types of questions that a CEO answers, with the CEO answering most Strategy questions and delegating a majority of the Financial responses.
- Perhaps most importantly for the purposes of our paper, we find question 3 to be particularly revealing. Using a scale of 1 to 7 we asked the participants to indicate how likely it was for a CEO to delegate the response to a question when he/she lacked information. The median response was a 6 – a very high likelihood that a CEO would allow another executive to answer a question when facing a lack of knowledge.
- Likewise, question 4 – which asked about the degree of spontaneity on the conference call – has a median response of 5.5 (and all but one response was at least a 5). This suggests to us that the perception of conference calls is not one of ‘pre-scripted show’ but rather a truly dynamic discussion. We further confirmed this notion that conference call Q&A between management and analysts is a dynamic give-and-take using follow up conversations with the respondents after the survey.

8 This survey benefitted greatly from the insight of Jeffrey Sanchez-Burks and Greg Miller.
• Finally, questions 5 and 6 reveal some demographic information about the types of companies represented, with approximately half of them based in the United States and with significant variation in firm size.

The next page presents the survey instrument that was distributed to the participants and the following page presents the tabulated results.
Thank you for participating in this brief survey. This survey will be used as part of study investigating which executives communicate information during earnings conference calls. Your time is greatly appreciated.

1. Conference calls are generally composed of two segments: Opening remarks and Questions and answers. Please allocate the percentage of time spoken during each of the segments of the conference call for each executive in the company (total should sum to 100%):

<table>
<thead>
<tr>
<th></th>
<th>Opening remarks</th>
<th>Questions and answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>______%</td>
<td>______%</td>
</tr>
<tr>
<td>CFO</td>
<td>______%</td>
<td>______%</td>
</tr>
<tr>
<td>COO</td>
<td>______%</td>
<td>______%</td>
</tr>
<tr>
<td>Investor Relations:</td>
<td>______%</td>
<td>______%</td>
</tr>
<tr>
<td>Other:</td>
<td>_________________</td>
<td>______%</td>
</tr>
<tr>
<td>Total:</td>
<td>100 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

2. Analysts ask questions about a variety of topics. There may be times in which an executive other than the CEO is better informed to answer a question about a certain topic. What percentage of the time does the CEO request that another executive respond when asked about each of the following topics:

(If the CEO answers all questions about a particular topic enter 0% – i.e., they never delegate a response to another executive. If the CEO always requests that another executive respond about a particular topic – or does not participate on conference calls – enter 100.)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial results</td>
<td>______%</td>
</tr>
<tr>
<td>Operations</td>
<td>______%</td>
</tr>
<tr>
<td>Strategy</td>
<td>______%</td>
</tr>
<tr>
<td>Research and development</td>
<td>______%</td>
</tr>
</tbody>
</table>

3. Using the scale below, how frequently is this statement correct regarding your company’s conference calls:

“The CEO delegates speaking on a conference calls when another executive is better informed.”

<table>
<thead>
<tr>
<th>Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CEO never delegates speaking to another executive</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>CEO frequently delegates speaking when another executive is better informed</td>
</tr>
</tbody>
</table>

4. Using the scale below, how would you rate the interactions between executives and financial analysts during the Q&A segment of the conference call as being scripted (i.e., people read from prepared documents)?

<table>
<thead>
<tr>
<th>Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Scripted</td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Spontaneous</td>
</tr>
</tbody>
</table>

5. Where is your company based?
   a) United States
   b) Outside the United States

6. What are your company’s average annual sales?
   a) $0 - $100 million
   b) $100 million - $500 million
   c) $500 million - $1 billion
   d) $>1 billion
Results of the Survey

1. Conference calls are generally composed of two segments: Opening remarks and Questions and answers. Please allocate the percentage of time spoken during each of the segments of the conference call for each executive in the company (total should sum to 100%):

<table>
<thead>
<tr>
<th>Executive</th>
<th>Opening remarks</th>
<th>Questions and answers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td>CEO</td>
<td>38.5%</td>
<td>37.5%</td>
</tr>
<tr>
<td>CFO</td>
<td>54.5%</td>
<td>50.0%</td>
</tr>
<tr>
<td>COO</td>
<td>3.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Investor Relations</td>
<td>4.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

2. Analysts ask questions about a variety of topics. There may be times in which an executive other than the CEO is better informed to answer a question about a certain topic. What percentage of the time does the CEO request that another executive respond when asked about each of the following topics:

(If the CEO answers all questions about a particular topic enter 0% – i.e., they never delegate a response to another executive. If the CEO always requests that another executive respond about a particular topic – or does not participate on conference calls – enter 100%.)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial results</td>
<td>66.4%</td>
<td>80.0%</td>
</tr>
<tr>
<td>Operations</td>
<td>35.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Strategy</td>
<td>10.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Research and development</td>
<td>21.4%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

3. Using the scale below, how frequently is this statement correct regarding your company’s conference calls:

“The CEO delegates speaking on a conference calls when another executive is better informed.”

<table>
<thead>
<tr>
<th>CEO never delegates speaking to another executive</th>
<th>Median: 6.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CEO frequently delegates speaking when another executive is better informed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

Mean: 5.2

4. Using the scale below, how would you rate the interactions between executives and financial analysts during the Q&A segment of the conference call as being scripted (i.e., people read from prepared documents)?

<table>
<thead>
<tr>
<th>Scripted</th>
<th>1 2 3 4 5 6 7</th>
<th>Spontaneous</th>
</tr>
</thead>
</table>

Mean: 5.3

5. Where is your company based?
   a) United States
   b) Outside the United States

Number of Respondents:
   a) 4
   b) 4

6. What are your company’s average annual sales?
   a) $0 - $100 million
   b) $100 million - $500 million
   c) $500 million - $1 billion
   d) >$1 billion

Number of Respondents:
   a) 1
   b) 1
   c) 1
   d) 5
Section 4: Anecdotal Examples from a Random Sample of Conference Calls

This section provides anecdotal excerpts from firms’ earnings conference calls. The purpose of this section is twofold: 1) to highlight the dynamic nature of conference calls - i.e., the conversational nature and the back-and-forth between the analysts and firm management (Note that the calls are generally dynamic and do not tend to have a “scripted feel.”); 2) to provide examples of how responses to questions are distributed within the management team - i.e., to demonstrate why we think the manager who is speaking is potentially the manager with the information (speaking reflects knowledge). In sum, these examples do not represent direct evidence that the amount of speaking reveals knowledge, but rather that there is interesting heterogeneity in responses to analysts’ questions which provide the potential for this conclusion. These anecdotes are antecedents to our analysis in Table 5 in which we rigorously test our hypothesis by relating the amount the manager speaks on conference calls with a variety of proxies for their level of knowledge.

To compile these excerpts, conference calls were selected at random from the full data set of conference calls. We then identified segments which highlight not only interesting interaction between management and analysts, but more importantly the interaction within the management team itself. For each example, we report the company name, the date of the conference call, why we think the example is interesting, and then provide the dialogue excerpt.

EXAMPLE 1
Edwards Lifesciences, Inc.
October 25, 2005

In this example from a high tech firm, there is a series of questions dealing with a broad range of topics: strategy, stents (one of the product lines), company’s tax rate, and then, finally, the company’s heart valve product. Note that the CEO answers the higher level strategy question, then hands off the first technical question to his Vice President of Technology. Then, the tax question is answered by the CFO while the Vice President of the heart valve division answers the heart valve question. We think this is an example of both the dynamic nature of the conference call (a variety of topics covered in a seemingly sporadic order) and the extent to which the talking reveals who has the information. The second dialogue segment from the same conference call below provides another example of this same dynamic.

Segment 1

Katherine Martinelli, Merrill Lynch - Analyst [13]

Mike, I was wondering if you could just talk a little bit more with respect to what you said was going on in Europe on the valve side of the business. Did that just emerge in this quarter? Is it expected to continue going forward? Any additional details would be great.

Mike Mussallem, Edwards Lifesciences - Chairman, CEO [14]

Yes, as a matter of fact, that did just emerge this quarter, Katherine. Europe has traditionally clocked along at a very consistent -- around a 10% growth rate. And so this was lower than it has been.

And what we saw was some competitive efforts in some very low-priced geographies. And as you know, our strategy is premium products. And we do command a premium price for those products. And we exercise discipline in that regard.
Going forward, we don't expect this to be a persistent problem. We expect the sales to rebound to more normal levels starting in the fourth quarter and certainly in 2006.

Katherine Martinelli, Merrill Lynch - Analyst  [15]

And you expect that because you've seen -- help me understand -- they stopped doing the price cutting? Have you guys gotten more responsive to it --?

Mike Mussallem, Edwards Lifesciences - Chairman, CEO  [16]

Well, there's two things there. One is that -- with our broad portfolio that includes valves -- that includes porcine valves all the way up to our premium products, we may be able to respond to some of the most price-sensitive customers with our older products -- the pig valves. But probably more importantly, we expect to have reimbursement in place for our premium products going forward.

Katherine Martinelli, Merrill Lynch - Analyst  [17]

Okay. And then, just maybe if you could talk a little bit about -- on the stent side of the business, you mentioned that it came in below expectations. What has been the biggest issue? Have you not built out the sales force? Has the competition been tougher than you thought? And are you confident in terms of being able to double that revenue base.

Mike Mussallem, Edwards Lifesciences - Chairman, CEO  [18]

You know what, since we have Stu Foster with us, why don't I let Stu take a crack at that, and I can fill in?

Stu Foster, Edwards Lifesciences - Corporate VP - Technology &; Discovery  [19]

Sure. We're past our manufacturing and supply issues. So honestly, we thought we would do better in the third quarter. And we didn't.

But I'll tell you, we are very optimistic about the future with LifeStent. We think it is exactly the right stent and the right solution for the SFA, which remains a big unmet clinical need. And this has been confirmed both by our in-house testing that we have been able to do to replicate some of the forces that are seen in the SFA, and even more importantly, by the preliminary results in the clinical trial, RESILIENT, where we were able to get the first six months' data on the Phase I patients in that trial. And it showed just great durability, and at a very good restenosis rate.

So the properties of the stent are such that we think it will be a market leader in the SFA. Now, when you look at why we might not have not done as well in the third quarter as we had hope, we're really focused on a couple of things. The properties of the stent that make it so good in the SFA also make it a difficult stent to deliver. And we have to address that very aggressively, and we are. And we'd hope that with our next-generation delivery system, we will overcome those issues. And that's part of the issue.

And the other part of the issue is we just haven't gotten the sales productivity out of our sales channel that we had hoped for. And we are very focused on that. And right now, we're sitting with about 20 -- mid-20s sales reps in the U.S. And honestly, we're going to hold at that number for a while, and we're going to focus on making those folks more productive while we achieve some of the milestones we need to achieve with regard to our new product launches, and get some more data on the RESILIENT trial that we can use to help motivate the buyers here.
So we remain very hopeful for the future, very confident about being able to double sales next year, and believe that the preliminary results from RESILIENT really fuel that optimism.

Katherine Martinelli, Merrill Lynch - Analyst

And I apologize. Can you just remind us what the timing is for the next-gen delivery system?

Stu Poster, Edwards Lifesciences - Corporate VP - Technology & Discovery

First half next year.

Katherine Martinelli, Merrill Lynch - Analyst

And then finally, Corinne, the reduction in the tax rate -- should we assume that that sub-25% rate continues going forward?

Corinne Lyle, Edwards Lifesciences - CFO, Treasurer

You're talking about 2006?

Katherine Martinelli, Merrill Lynch - Analyst

Yes.

Corinne Lyle, Edwards Lifesciences - CFO, Treasurer

Yes, it's a little early for us to estimate. But generally, historically, we have been in the 25, 26% range. I wouldn't expect to vary much from that range.

Operator

Amit Bhalla, Morgan Stanley.

Amit Bhalla, Morgan Stanley - Analyst

Thanks for the question. First question is from RESILIENT -- can you give us an update on enrollment -- number of centers that are up and running at this point?

Mike Mussallem, Edwards Lifesciences - Chairman, CEO

Yes, sure. We've got something between 20 and 25 centers enrolling at this point, including a couple in Europe which are some of our top enrollers. We are well over halfway through the trial. It's gone slower than we thought. It's a tough trial to run. Other people who have tried to run stenting trials versus PTA have had issues. But we're making progress. We actually had our best enrollment month in September. So we're going to get there. We're probably not going to get there by the end of the year. But we should be able to get there relatively early next year.

Amit Bhalla, Morgan Stanley - Analyst

Okay. Then the other question is on the retrograde approach for the aortic valve. Can you just give us a sense of your interactions with the FDA at this point? I know you said that you are confident that you will get it restarted by the end of the year, but just a little more color on your interactions with the agency?
Yes, I think we've just continued to have good discussions with them about the modifications that we filed. And we remain very confident that we're going to be able to gain an approval and move forward with this trial in the very near future.

Segment 2

We just have a couple of follow-ups. And I think most everything was covered, but I did have just maybe one for Stan. I do want to maybe get you to comment on a pipeline for the aortic product and when we might see not only changes to the delivery system, but maybe changes to the device -- the implant design itself. And then for Stu, could you just comment on the appetite among the clinicians for that of (ph) bare-metal stent? Is that part of your central challenge, that they're kind of tired of the next bare-metal stent, and it's just tough getting -- you have enough bodies in terms of the sales force, but it's tough for them to get much presence because of that?

Thanks, Mike. Why don't I start out with this. I'll let Stan complete the answer here are on the percutaneous aortic valve, and then Stu will jump in on the stent.

On the percutaneous aortic program, as you might imagine, we are already pursuing next-generation design. So clearly, that's something that exists in R&D. And we'll bring all of Edwards' expertise in making valve and valve durability and delivery systems to bear on this.

Having said that, we feel pretty good about what we have and we're anxious to get back into feasibility trials with the designs that we have today. And so we're really not unveiling any sort of next generations, Michael. We're making very good progress on that.

Yes, I would add that the valve continues to work remarkably well. Everyone is amazed at its durability and how it performs. And what we've done -- and, I think, effectively -- is to learn and adapted by bringing in both the 26-millimeter and the retrograde delivery systems in pretty short order. And we expect that to improve the durability of these -- I'm sorry, the range of patients that we're treating and the ease-of-use. And by the way, we got -- we're out two years with the 23-millimeter valve already, and those patients looks terrific. This is, I think, again, demonstration of the kind of leadership that we are providing in this vital area.

Yes, Mike, on your bare-metal stent question, I want to reinforce the notion that we're not -- this is not a coronary application. If you're talking about bare-metal stents in coronaries, that's one thing.

But the SFA is a special challenge, right? Stenting in and of itself isn't that well accepted in the SFA yet, number one, and number two, the metal stents that
have been used have been less than optimal in terms of their durability. And we have all heard about fracture rates in the SFA.

So I think there's plenty of room for unique design to stent an SFA application that hasn't been successfully met in the past, and we think we have the right stent to do that. And at least on a preliminary basis, our clinical data reinforces that. And there's a lot of spotlight on the SFA right now. And people are looking for ways -- and we all know what's going on with FoxHollow in terms of treating that vessel. And I think the right stent that has durability and a great restenosis rate, albeit a bare-metal stent, might be the right solution. There is absolutely no evidence to date -- in fact, there is negative evidence that a drug-eluting stent is really even going to be applicable in that region.

EXAMPLE 2
E*Trade Group, Inc.
July 20, 2004

This E*Trade Group example highlights two situations in which the analyst asks a question about a specific business unit and the CEO delegates the response to lower-level executives. In the first segment, the CEO provides a short answer and then hands off the response to the COO, who then directs the response to the executive in charge of the business segment. The second dialogue segment provides another example of response delegation relating to yet a different business unit. Again, note that the CEO delegates the response to the particular business unit head. Therefore, in contrast to calls in which the CEO handles many of the questions, in this case the CEO frequently delegates responses to operational heads. We believe these examples reflect both the chain of command and the location of specific knowledge in the organization.

Segment 1

Rich Repetto, Sandler O'Neil - Analyst [23]

Looking at the segment info, it looks like the bulk of it was in the brokerage. Could you give us more color, the thought or the behind, what was going on behind the reduction in marketing.

Mitchell Caplan, E*TRADE Group, Inc. - Chief Executive Officer [24]

Yeah, I'm happy to do it. Let me start and then again, Jarrett, why don't you pipe in. I tell you that, you know, lot of it is that we've tried really hard to try to build the marketing spend in a way in which we have maximum flexibility and one of the nice things, as I think you well know is, we probably underspent all of our competition last year pretty significantly in brokerage marketing spent and yet seemed to have outperformed the competition pretty handily with respect to DART's and gaining market share. I think a big part of that is that we tried to turn our marketing into being a very targeted, very focused campaign around active traders. Earlier this year we guided to an increased marketing spend. That was based on an overall stronger equity market and a belief that we were going to not only spend to our trading with both active traders and serious investors, but also towards serious investor around the asset gathering.

We continued to spend in marketing last quarter around the serious investor and asset gathering, where you saw-- and we continued to spend around active trader where we pulled out, was what you would view as traditionally mainstreet advertising around trading and trading behavior.
One of the interesting things that I track is I look at all the time what our marketing spend is and we look obviously at growth in gross accounts and growth in net accounts even weekly in the brokerage and in the banking business. And for the quarter, although you, you know, we were still able to grow brokerage accounts positively by 20-21,000, you saw the rate of growth slow by about 34% on a net basis, by about 17% on a gross basis, but yet we did that by declining our marketing spend in brokerage by about 50%.

So, a lot of it is just looking for efficient marketing spend in a time that makes economic sense and where you think you're going to generate a result on it. Jarrett?

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Jarrett Lilien, E*TRADE Group, Inc. - President, Chief Operating Officer  [25]

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Yeah, and Rich, I would just add to that, reiterate, you know, we are opportunistic, but we've been really good about it, we've been very effective, our marketing dollar effectiveness has been quite high, as Mitch just outlined.

When it's an environment to spend, we've spent more and we've gotten good value for it when it's an environment like this one, we spent less, and we're still getting good value in it and that rings true when you see our market share gains in both DARTs and margin. You see some good growth in assets that outdid our peers and also growing net accounts as well. You know, one of the nice things that we've seen, I guess maybe I'll let Lou talk about this is just how the marketing dollars have worked on our serious investor pitch.

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Lou Klobuchar Jr., E*TRADE Group, Inc. - Chief Brokerage Officer and President, E*TRADE Securities  [26]

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The targeting net that both Mitch and Jarrett have talked about, even though in weaker markets we reduce, we know is resonating quite nicely with the groups we target. So for example on the serious investor front, our focus continues to sharpen.

In addition to spending the marketing dollars, obviously it's the content that counts. So we rolled out a 12 B 1 rebate program, we made changes to our commissions, we introduced the lowest cost index fund, we dramatically improved our website, and the proof points that that is working, we find throughout our business.

There has been very good growth in both the trading and the safe keeping of mutual fund assets at E Trade that were a key part of the strategy. So, for example, if we took a snapshot of our asset levels right before we introduce the 12 B 1 rebate program to now, we would find that equities grew only 25% in that period. Mutual funds grew 35% and from a trading standpoint, while equity trading declined again from Q3 to Q2 of this year, 10% mutual fund trading in fact increased 17%.

So we know that our message is resonating in terms of the numbers and we think it's also resonating from a qualitative standpoint when we see things like our money rankings that put us No. 2 in a field that we just entered, that of premium discount brokers ahead of some very, very major competitors who have been in that business for a long time who chose to be nameless.

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Segment 2

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Matt Snowling, Friedman, Billings, Ramsey - Analyst  [34]
Hi. Just taking a look at Dempsey, circling back on Dempsey, it looks like if I'm looking at this correctly, the volume of shares traded was up considerably over anything we've seen in certainly the last quarter or even beyond that. I'm just wondering if that's a function of trading in additional stocks or is it changing strategy or just pure volume.

Mitchell Caplan, E*TRADE Group, Inc. - Chief Executive Officer

It is not at all a change in strategy. I tell you that what we have done and I think what differentiates us from some of the competitors in the marketplace like a knight, is we've been pretty disciplined about the number of stocks that we're willing to make a market in and we have obviously put those stocks on the list where we think there is significant volume and order flow from our own core retail customers and as a result of that, we can create pools of liquidity, which allow for best execution for that customer and are profitable for us. What you have seen here, however, is a big jump. It's in the bulletin boards. It was as a result of a couple specific stocks, which our customers were trading and is a result of them trading in that, in the particular quarter, you saw big volume. It's also what drove down the revenue recapture.

So it's an offset. The volume was up, revenue recapture was down really specifically as a result of that particular stock. Lou, do you want to add any more color?

Lou Klobuchar Jr., E*TRADE Group, Inc. - Chief Brokerage Officer and President, E*TRADE Securities

Yeah, the only other thing I would add in that regard is the core business is, of listed and over the counter trading with, we actually saw declines in volume there consistent with what we saw in the retail market overall.

So to Mitch's point, the, the pretty incredible spike that you see was a function of the small subset of bulletin board trading. We're talking about stocks that are trading tens of billions of shares in the quarter, and to have a value of a small fraction of a penny. So excuse the volume, excuse the revenue capture.

The underlying fundamentals were that our trading volumes in listed and over the counter moved with our retail volumes. Offset by a pretty good piece of news there, which was in both of those core businesses though listed and over the counter trading, we actually saw revenue capture per share increase to virtually offset the decrease in volumes.

EXAMPLE 3
Possis Medical
May 15, 2002

In the following example from a firm with intensive R&D activities, the CFO hands off a technical question to the Senior Vice President of R&D.

ANALYST
distal occlusion, but that is that you're filing a [510K] this quarter for peripheral usage and anticipate trials for later, but would you help me walk through, in this quarter, since we're in the quarter right now, do you expect that to be early or late in the quarter? Can you sort of give guidance with that? And also then would you walk through what you would anticipate to be the [510K] procedure and timeline and what would you estimate it would be if you were to take a shot at the approval time?

Phil, I'm going to turn the question over to Jim Gustafson.

Thank you.

Phil, we're -- as -- boy, excuse me. As Bob indicated, and Eapen also, we are planning our [510K] to obtain from FDA clearance for use of our distal occlusion device in treating peripheral arteries. We're anticipating making that [510K] later this quarter. Certainly by the end of our fiscal year, by the end of July.

5 10-Ks are reviewed by FDA. They give themselves 90 days. FDA's review times have stayed with that. They're pretty good about responding within 90 days. Their response will either be a clearance or possibly some additional questions, which we would then have to respond to, and then wait for them to respond to our response.

So I really can't anticipate whether they would have questions or whether they would just come back with a -- with a clearance. But I can say that this is a well-worn path for us. We're familiar with doing 5 10-Ks, and it's actually a 11 method that [inaudible], now pardon of Medtronic used to bring their distal protection device to the market for peripheral use. They actually did it in 1997, and got a [510K] clearance back then, for a peripheral indication for their distal protection device. They chose not to market it, but that's how they got their first FDA clearance was via a [510K] for peripheral use.

EXAMPLE 4
Staples, Inc.,
August 20, 2002

The Staples, Inc. conference call highlights several examples. The executives on the call are the CEO, President (leading the call), CFO, and the President of U.S. Stores (business unit head). In the first segment of the selected dialogue, the CFO asks permission of the President to answer the question. The CFO answers a series of questions and then the President adds color to the responses. Then the President acknowledges that the business unit head is better informed and requests that he make a comment by stating, “Demos, you're out there every day. What are you seeing out there?” (Comment 16). In the second example segment from later in the conference call, note how the President asks the CEO to respond because he has “spent more time in Germany” (Comment 38). We think this reflects that the person with the knowledge answers the question.

Segment 1

Matthew Fassler, Goldman Sachs [4]
A couple of questions. First of all, I want to focus on retail pre-tax margin for a moment along the lines of the numbers that you disclosed in the P&L today. I guess over the past couple of years when you take the charge out of last year's second quarter -- rather, when you include it typically, you had, uhm some sequential improvement in retail operating margin from the first quarter to the second quarter. And I guess that was not the case when you look at this year the operating margin was down a bit sequentially. If you could comment a bit on the retail profit margin performance. What the components were, how the SG&A in rough terms looked in the retail business and how that showing compared to your expectation?

John Mahoney, Staples Inc - Chief Financial Officer and Chief Administrative Officer [5]

Do you want me to comment on that Ron?

Ronald Sargent, Staples Inc - President and Chief Operating Officer [6]

John, go ahead.

John Mahoney, Staples Inc - Chief Financial Officer and Chief Administrative Officer [7]

I think if you look at the SBU income percentage, Matt, which includes G&A, if you look at the percentage, it's a little over 3 for the Q2 this year, and Q2 last year it was 2.8.

Matthew Fassler, Goldman Sachs [8]

Sure.

John Mahoney, Staples Inc - Chief Financial Officer and Chief Administrative Officer [9]

It is down a little bit from the first quarter.

Matthew Fassler, Goldman Sachs [10]

Right.

John Mahoney, Staples Inc - Chief Financial Officer and Chief Administrative Officer [11]

And I think that what really happens in the second quarter, since it is our lowest revenue quarter, uhm, I think you do get a little bit of de-leveraging of some expenses when you have a number of fixed expenses that have a bigger impact on the rate in Q2. So I think looking at year-over-year is probably a more appropriate, you know, as I mentioned G&A starts to de-leverage a little bit as a result of incentive compensation in the second quarter, which will smooth out somewhat in the second half of the year, I think it will be up slightly.

Matthew Fassler, Goldman Sachs [12]

If you think about the composition of your guidance for the second half, last year your retail business started to recover a bit in terms of profitability in the second half of the year to year comparisons improved and what we see, you know,
this year to date is that it seems like the most dramatic profit momentum in the business is in the delivery area and Europe is doing quite nicely, as well. Should we look for operating leverage in the retail business in the second half?

John Mahoney, Staples Inc - Chief Financial Officer and Chief Administrative Officer

Yeah. I think we should. I think that as you take a look at, uhm, our historical highs for retail performance, uhm, we still have a ways to go to achieve those kinds of results and, uhm, I think that a lot of the things that team in retail have done to ensure that not only do we get the kind of sales productivity we need but also that we take a look at the way we operate our stores so that we can ensure that that operating margin continues to expand, I feel good about it. That was a big part of the improvement program is really take a hard look at all of those elements, whether it's supply chain activities or whether it's some of the Back to Brighton service initiatives. I think all of those things help to drive a more productive store at varying levels of volume.

Ronald Sargent, Staples Inc - President and Chief Operating Officer

The only thing I'd add to that is we also had a very aggressive remodel program during the second quarter of this year that we didn't have last year which I think might account for some of the differential but despite that we're up 14% year-over-year.

Matthew Fassler, Goldman Sachs

And one quick follow-up. Ron, obviously any comments that you make have been -- are going to be subject to -- to minute scrutiny from people like me. I just want to get some clarity on your back-to-school comments. It sounded initially like your intimation was that the back to school element of the business was progressing in line and then you did allude to some of the slow sales that others seem to be talking about. If you can just get, I guess, a -- a -- a statement from you on what you're thinking about the back-to-school business.

Ronald Sargent, Staples Inc - President and Chief Operating Officer

I think -- let me make a comment and I'll ask Demos to provide color commentary since he is out there every day. Basically we probably lowered our expectations a bit about back to school this year in line with our Back to Brighton strategy. Having said that it is an important time of the year. If I was looking at where we are today I'd say we're kind of on plan. But we are focusing on selling a lot more of the basic items that sell to businesses as well as to, you know, back to school consumers. We are selling much less of the fashion items and we had planned to sell of the fashion items. Very consistent with our strategy. I think pricing has been very rational out there in the field. I think advertising has been heavy and it's been early particularly on the part of the mass merchandisers. As you know, we roll out back-to-school market by market. And we're in the throes of it in some of the southern markets, but in the Boston area we really haven't seen much of a back to school because back to school is much later in the month. Demos, you're out there every day. What are you seeing out there?

Demos Parneros, Staples Inc - President of U.S. Stores

I would agree with the comments on a lot of the earlier advertising that we have seen so far. We have had schools open down in southern markets as you've said and performance there is definitely to our expectations. Some of the key areas that
we're seeing good success in, some of the basics areas, notebooks, binders, chairs, bookcases, book bags among others. And as you mentioned a little bit less emphasis on some of the license and fashion type products. So feel good about it since the bulk of our back to school is still to come as markets open early to the middle of September.

Segment 2

Susan Quilty, Morgan Stanley [38]

Thanks. It's Morgan Stanley. I had two questions on related topics. First, was wondering what you can do to address some of the weakness that you talked about in Germany, understanding it's a macro issue. Are there things you are doing from a merchandising or marketing perspective that you think could improve results there? And you know, how important is that improvement to you making full year guidance in Europe and then I'll come back with a follow-up, thanks.

Ronald Sargent, Staples Inc - President and Chief Operating Officer [39]

Susan, the guy that's probably spent more time in Germany over the last 6 months than anybody is sitting to my right. His name is Mr. Stemberg. So, I'll let him answer that one.

Thomas Stemberg, Staples Inc - Chief Executive Officer and Chairman [40]

Susan, we've really gone back to basics in Germany. And really following the same Back to Brighton mindset that Ron has led the United States business into. So that we really now -- we're not doing -- we've cut back our circular activity by even more dramatic amount than we did in the United States and we've really focused on acquiring small business accounts. We are seeing considerable success doing that and the comps are coming back and spending more money. So we do see accelerating trends. Our customer comps are up an increasing amount despite the dismal environment. I think -- I'm saying this probably longer than anything you want to hear that there will be a light at the end of the tunnel in Germany and -- but I do think when you are looking at an industry that's down 10% year-over-year, it's going to be very difficult to achieve that in this kind of environment.

Susan Quilty, Morgan Stanley [41]

Tom, just as a follow-up, when you talk about achieving profitability for the year, is that predicated on a big improvement in Germany?

Thomas Stemberg, Staples Inc - Chief Executive Officer and Chairman [42]

Well, I think we're going to have an improvement in Germany year-over-year despite what's going on there. It won't be a very dramatic improvement. And it will be a slight improvement because we're investing heavily for the future in terms of acquiring accounts. Having said that the answer is we're comfortable that Ron's statements about Europe in total are absolutely accurate even figuring in the downside in Germany.

Susan Quilty, Morgan Stanley [43]

If I have time for one other question.
The delivery business. It seems as though the market share gains that you have been seeing have actually been widening over the last year, and I know you talked about a number of factors there, but is there -- there are a couple, one or two most important factors that have changed in the last year that may account for that widening in market share and again just trying to have an eye towards the sustainability here? And that's it for me. Thanks.

Really, we look at two aspects of our delivery businesses and one would be the contract business, and there I think we're just reaping the benefits of a lot of hard work over a lot of years. Think Jay Batler and his team have really got a better mousetrap in terms of acquiring, you know, contract customers. On the small business delivery side, which would be reflected in Staples direct as well as Quill, I think again, we are kind of again focusing on the right customers, penetrating the customers we have. I personally think we have a bigger opportunity in getting our Staples business delivery growing much faster than it currently is, because I think we probably underplayed and under-marketed to small business customers as we focused on how quickly could we improve profitability. So I think, you know, there's always that balance between top line and bottom line. I don't think there is anything dramatically different or unique. I think it's just a result of a lot of hard work, a lot of people, and, uhm, that's certainly one of our best performing parts of the Company right now.

EXAMPLE 5
The Finish Line, Inc.
January 10, 2003

The Finish Line, Inc. conference call provides two examples. In the first segment, the analyst directs specific questions to specific executives. We think this indicates that analysts themselves are aware of the distribution of knowledge within the firm, reflected in their directed questions. In the second segment, a subordinate steps in to supplement a comment made by the CEO – adding information from a potentially more knowledgeable source and reflecting that the CEO is potentially knowledgeable.

Segment 1

Good morning, guys. Um, and congratulations on a, um, good period in spite of a tough retail market out there.

Um, Alan, I wondered if you could give us a little bit more color in terms of your comments on licensed apparel. Are the margins that you're generating in licensed apparel equivalent to what you get, generally, in the branded and private label apparel and how does it compare against your footwear offerings?
Actually, John, um, the licensed apparel margins are the highest margins that we're getting right now with regard to whether it's branded or our own -- our own brand, or even our footwear. And probably a lot of that is just simply related to the fact that this product that we're selling, we're selling out there at full retail.

It's coming in and it's just blowing out and, um, you know, there is no markdown, no promotion necessary. We're selling the product to put the full retail, and we have pretty descent initial marks on the product to start with, so, it's really, um, very, very successful product for us. We're enjoying -- we're enjoying the times, we're enjoying the process, and we still think there is a lot of life, you know, left in the license end of the business.

What we're seeing is the license end of the business, um, is really a couple of, um, different things for us. It's -- it's what we would normally think of it, as far as the fan base, you know, the NFL, um, the NBA and major league baseball. And also colleges, NCAA, but even beyond that, we are really seeing a lot of excitement in what we would call the retro license end of the business, you know, with retro jerseys, retro jackets, things like that. We're having a lot of success in selling that product, again, at full retail and selling it and turning it very quickly.

John Shanley, Wells Fargo [22]

That's great to hear. With the -- would you expect that you're open to buy position for spring '04 as well as maybe even into the fall-selling season, likely see more of that license, time margin goods?

Alan Cohen, The Finish Line, Inc. - Chairman of the Board, President, Chief Executive Officer [23]

Yes, we -- we're going to build our inventory position in that kind of product. That is our plan.

John Shanley, Wells Fargo [24]

Great.

Steve, if you could tell us a little bit more about the, um, the December -- and also some indication of how sales have been post Christmas. Um, have the -- has the promotional environment changed at all, or did it change at all during the holidays, and were the gross margin levels on plan for December, and how does business, um, look so far into January? In terms of promotions. I know you said you're going to continue to be mindful of BOGO's and so on, but does it look like it's improved to any degree?

Steven Schneider, The Finish Line, Inc. - Chief Operating Officer, Chief Financial Officer [25]

Actually, um, going -- going back through December, through the holiday, I would say, um, it was -- it was as promotional as it's ever been. I mean there was -- there was things going on, um, BOGO's and, you know, two for $90, take an additional 30% off. All kinds of things were going all over the place, especially in, you know, specialty athletic.

I don't, um, -- what I did say is really for the holiday season in spite of that, um, we -- we made our plan with regard to the, um, product margins we were looking for, and actually, we were able to slightly exceed last year's, um, product margins
for the same time period, so, we, again, we have been through this now for about three years. We're not terribly surprised anymore by, you know, what is being done out there in the marketplace.

Um, so, um, you know, we're -- we're really getting much, much better at planning and maintaining the margins that we anticipate. Again, we -- we ourselves, I'm not trying to say that we don't show promotion in our stores. We do show promotion in our stores. We're not anti-promotion.

What we do is -- we really do look at each item, each style, and when we have things that aren't necessarily moving, um, you know, the way we want them to move, we will take our markdowns and we'll show them and we'll be as aggressive as we have to be to make certain we're able to maintain the inventory levels that we need to maintain. So, again, um, you know, we ourselves do show some promotion, but we -- we really don't think we lead with a promotion. We really like to try to highlight the product, especially the exciting product and the more exciting the product gets and the more special it gets, and -- and the, um, the more special it gets to us as far as, you know, something we might have that our competitors don't have, really the more we're going to key in on the product, showing it in the front of our stores, making certain it's in the window, creating a lot of excitement around that product. Because I think that is what is going to be important for us is -- is -- and really, I think it's important for our vendors, you know, to create exciting product, create cachet around their brand, and we think that we're going to do that better than anybody else in the mall, and um, the more important thing for us is to try to find that product with each and every vendor. Those kinds of things that we really want to expend our energies and our windows and our lease lines on to, um, to enhance the brand and also to enhance, um, you know, The Finish Line itself, as far as what we're going to stand for. [ Indiscernible ]

Segment 2

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Alan Cohen, The Finish Line, Inc. - Chairman of the Board, President, Chief Executive Officer [27]

Well, I would say -- I really don't want to speak to terms. I will only tell you that, obviously, it's an ongoing negotiating process with our vendors. Um, our goal with regard to terms is always to try to be competitive and, um, we worked very, very hard at that, um. We're not necessarily -- we are not necessarily dictating, um, price or promotion in the marketplace, but at the same time, it's very important to us when we're talking about similar kinds of product that we have to be able to be competitive in the marketplace, and so, um, you know, we have to work very hard, and we have to be very diligent to make certain that we're getting this product as best we can so that we can continue to be competitive.

So, um, in that regard, you know, it's just an ongoing kind of a process. And, again, we're not setting the marks. We're just basically trying to stay in the game and be as competitive and as successful as we possibly can.

With regard to allocations, um, as I said before, I applaud, um, I applaud Nike. I think that they have taken a tremendous stand here, a very daring stand as far as, um, basically saying they're going to redefine their distribution strategy in the United States. I think that, in essence, they decided that protecting their brand is really one of the most important things that they can do, and I would agree with them. And, um, in that regard, um, obviously we're seeing better allocations of key product, um, they like the way we handle that product, they like the way we show that product, the way we sell that product in our stores, and they feel that we
enhance their brand as well as anybody, so, obviously they're providing more of that product to us, and we're having success with that product.
And really, with regard to other vendors, key product, we're getting what we need, um, from other vendors in key product also, and I think we're having a lot of success in doing a good job with that, too.

John Shanley, Wells Fargo [28]

That sounds super, Alan. Thank you very much.

Steven Schneider, The Finish Line, Inc. - Chief Operating Officer, Chief Financial Officer [29]

John, one other thing, you asked about sales momentum and kind of how the sales went for the month, um, I think Alan might have eluded to the fact it was slow in the early part of December, but it seems like approximately around the Saturday before Christmas and thereafter, we definitely saw a big shift in business. And business was stronger in the last two weeks of the month continuing in the first three to four days here in the -- in January period, from that standpoint, we do like the trend.

John Shanley, Wells Fargo [30]

Great. Good to hear it. Thank you.

EXAMPLE 6
ITT Educational Services
January 22, 2004

This ITT Educational Services, Inc. conference call provides an additional example of the dynamic interactive nature of the conference call. In this case, the CEO, COO, and CFO are all on the call and collectively and spontaneously interact to answer questions. This call has several examples of this “team dynamic” to answering questions.

Mark Marostica, U.S. Bancorp Piper Jaffray - Analyst [2]

First question relates to the outstanding new students start growth that you saw in the quarter, and I want to ask whether or not you can zero us in on perhaps one or two curriculum areas that drove the 25 percent piece of the growth rate, without the admission test impact?

Rene Champagne, ITT Educational Services - Chairman, CEO [3]

Actually, we have three primary technology schools at this moment. We have a school Electronics, a school of Information Technology, and a school of Computer Drafting and Design. Quite frankly, all three schools showed very positive increases in new student enrollment. So, there was quite a broad achievement, with no one school gaining significantly different than the others. They all benefited from very strong enrollment.

Omer Waddles, ITT Educational Services - President, COO [4]
And it was also heavily driven by the associate degree program.

Rene Champagne, ITT Educational Services - Chairman, CEO [5]

That's correct.


Okay. Great. Regarding the strategy to open learning sites -- I wonder if you could describe for us -- what the business model of a learning site looks like in terms of startup costs, and time to profitability, and how that compares to a new campus?

Rene Champagne, ITT Educational Services - Chairman, CEO [7]

Well, we're going to be opening learning sites with significantly less square footage than we do on a campus. A typical campus these days is anywhere from 25 to 30,000 square feet in size. The learning site will be somewhere in the 5 to 8,000 square foot size. So, there is a marked difference just from that point of view.

Secondly, from a P&L or financial point of view, we'll be primarily staffing the learning site with faculty that will be teaching the programs of study. And minimal other staff -- only necessary services of that learning site will be provided by the main campus. So really, we're talking about limited overhead in the learning sites. Most of the costs are going to revolve around facility costs and marketing.

Kevin Modany, ITT Educational Services - Senior VP, CFO [8]

Mark, this is Kevin. If I can just add -- certainly with what Rene has just said, our expectation on time to profitability will certainly be inside of the range we have experienced at the full campuses -- so lower costs upfront as well as a quicker period to profitability, and a quicker return on investment from a cash flow perspective.

EXAMPLE 7

Tetra Tech, Inc.
January 27, 2005

The following is an example in which two different executives answer different parts of an analyst's question, depending on their expertise. The President answers the part about restructuring while the CFO answers the part about internal controls and Sarbanes-Oxley. Speaking reflects specific knowledge.

John Quealy, Adams Harkness - Analyst [15]

Okay. My last question, maybe for Sam, in terms of the restructuring, can you comment on how the activities are proceeding according to your expectations. And then secondly, with all of this increase in the internal control structure and things you've talked about today, will this help you folks come into compliance with Sarbanes-Oxley as we get to the end of the fiscal year?

Sam Box, Tetra Tech - President [16]
With regards to the restructuring, I would say it has gone even better than I expected and Dan expected. We have had good receptivity by the operating units and understanding what needed to be done. And them, taking their role and achieving those goals. So, that's been very positive.

On the Sarbanes-Oxley side and the implementation of our contract review process, our good review process. And I would say, more importantly, the solid line financial reporting of the operating controllers all just strengthen our position with Sarbanes-Oxley and our ability to pass that test later this year.

David King, Tetra Tech - CFO, EVP Finance, Treasurer

This is David King. We are on schedule with Sarbanes-Oxley. We have substantially completed our Phase I documentation. And we're going through walk through and testing right now. And, so, I do believe we will be in compliance by year end, our fiscal year end.