

**Interactive Case Study on Shareholder Activism**  
**MOCK PROXY BATTLE**

**Main Event Wednesday August 31, 2011**

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**NATIONAL INVESTOR RELATIONS INSTITUTE**  
**NIRI CAPITAL AREA CHAPTER**

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**SOCIETY OF CORPORATE SECRETARIES & GOVERNANCE PROFESSIONALS**  
**MID-ATLANTIC CHAPTER**



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## INTERACTIVE CASE STUDY ON SHAREHOLDER ACTIVISM

This is an Interactive Case Study on shareholder activism. This case, which is fictional, presents a dilemma facing many boards of directors and managers at publicly traded companies today.

The objective of this one-day immersion role-playing program is to familiarize you with the increasingly complex decisions to be made when confronted with an underperforming stock price and an activist shareholder's demands for boosting shareholder value.

### ABSTRACT

The case describes the efforts of two activist investors who have formed an investment group (13D Group) and call themselves **The Committee For Value Improvement and Shareholder Accountability** ("The Committee"). The Committee is attempting to obtain three board seats on WidgeCo's eleven member board and want to persuade the other board members to divest an underperforming business unit and use the proceeds from the transaction to repurchase some of the Company's shares outstanding. WidgeCo's board is not sure whether to concede, fight or attempt to seek middle ground.

Each participant will play the role of a board member and will consider analyses presented by management, the dissident investors, institutional shareholders, company advisors and others. In the end, based on the information presented, each board member will recommend to the others how to proceed.

### PURPOSE

To simulate an activist campaign at a mid-sized public company plagued with business and governance issues. Participants will gain a greater understanding of the causes, effects and complexities of shareholder activism, and wrestle with key fiduciary issues as if they were directors of a public firm.

### BACKGROUND

WidgeCo (WIDG) a manufacturer of specialized widgets for the defense, shipping, electronics and food service industries is challenged by flat sales, a declining stock price, an underperforming, overpriced and not-yet integrated acquisition that is the brainchild of the CEO's recently hired heir apparent, and a number of governance issues.

The Committee For Value Improvement and Shareholder Accountability is comprised of two hedge funds that together own 5% of WidgeCo's common stock and hold an additional economic exposure to 4.9% of the company's market value through certain derivative products.

The Committee is dissatisfied with WidgeCo's performance and strategies, is publically lobbying for significant change, and is proposing its own Board nominees in an attempt to wrestle power away from company incumbents.

### ACKNOWLEDGEMENTS

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# WidgeCo

*Better Living Through Widgetry*

## ROUND ONE...

**The air in the boardroom at WidgeCo was thick with anticipation.** It was late on a Tuesday afternoon in August and everyone had been told on short notice to cancel any previous engagements and gather in the boardroom at 4:00 PM. The company's CEO, "Buck" Dimes, had called the meeting. Everyone knew that Buck, a meticulous engineer who planned everything with great precision, did not call meetings on short notice. In addition to the Board of Directors, members of management in the room were Ari Sing Starr, WidgeCo's President and COO, Iona Lott, the company's Chief Financial Officer, Lawson X. Purt, Vice President Legal and Stockton G. Uroo, Vice President of Investor Relations.

At precisely 4:00 PM Buck Dimes strode into the room. His expression was grave. Everyone stopped talking and waited for him to speak.

In his typical style, Buck didn't waste a lot of time on preliminaries. "Thanks for coming on such short notice. I'm afraid I have bad news. Earlier today I received a letter from a hedge fund in New York that thinks they can tell us how to run our business. The letter was also sent to the wire services as part of a press release. I won't go into all of the particulars now, but I've made copies of the letter for each of you. We don't have a lot of time and not responding to these activist investors is not an option. This is a strong company with a great future in front of it, and I expect that with time to work our way through our current slowdown in earnings we can demonstrate the error of these hotshot investors' ways. However, I realize that we are a public company and as officers and directors you have a fiduciary duty to do what is in the best interests of shareholders. I expect that with some hard work this group can come up with some solid recommendations. Now let's get down to business."

## COMPANY HISTORY

In 1982, Dr. Buckson ("Buck") Dimes had been working for five years as an engineer for one of the major U.S. defense subcontractors, BlastCo, Inc. The world was in economic turmoil, political tensions were elevated and demand for BlastCo's specialty products was high. A year earlier and despite his young age, Buck had been placed in charge of one of the manufacturing lines for a minor component in BlastCo's "Go Get 'Em 2200" product, one of the company's top sellers.

As Buck ran the line, he realized it would be possible to make improvements not only on his particular component, but on others in the plant as well. Taking his ideas and conceptual drawings to his senior management, he made a case for being placed in charge of designing and implementing the new parts. Management of BlastCo was not interested. Buck's work would require time and resources which the company felt better allocated

elsewhere. Buck returned to his line and the more he thought about his designs, the more he became convinced he had stumbled upon something which customers would want.

Before six months had passed, Buck quit and with the support of his wife, Penny Nicholson Dimes, founded WidgeCo in his garage. He borrowed enough money to manufacture a prototype of his product, the Widge 1000, and in 1984 made his first sale to a major contractor. Backed by his first significant order, Buck expanded his manufacturing capabilities and his business thrived as then President Reagan employed a strategy which included a significant military build up to place increasing pressure on the Soviet Union.

By 1988, WidgeCo was producing more than 5 million units per year and enjoying a nice profit. In 1989, he took the company public with backing from Goldman Sachs and Lehman Brothers. The stock was traded on the exchange under the symbol "WIDG."

Then, disaster struck, at least from Buck's point of view. Reagan's strategy to cause the fall of the Soviet Union had succeeded, military spending was reduced, and orders for the Widge 1000 dropped. Buck had seen some of the early warning signs in advance and had already begun thinking about diversification.

In 1995, he acquired a small, privately held company called MarCo which manufactured high specification components for the global shipping industry. Buck was still heavily involved with the design group and led efforts to improve MarCo's main product, renamed the MarWidge, and improve its marketability. He succeeded in growing the business by 10% over the next five years.

In 2005, Buck again made an acquisition. The tech bubble had burst and Buck was aware of a small manufacturing business called SemCorp that was focused on semiconductor manufacturing. SemCorp was about to go bankrupt and Buck was convinced that his superior design and manufacturing techniques could make the business profitable. He bought the company for a song and by 2007, the SemWidge division had turned a profit and was steadily growing its contribution to the bottom line.

Also in 2005, at the age of 53, Buck began to think for the first time about succession. Encouraged by his board, the company conducted a search and ended up hiring 47-year old Ari Sing Starr as Chief Operating Officer and the designated heir apparent. Coming from the food services giant StaleCo, Ari's background had little to do with any of WidgeCo's three product lines, but Buck convinced the board that Ari's expertise in running a profitable business line at StaleCo and his entrepreneurial spirit made him the perfect candidate to eventually succeed him.

In 2007, WidgeCo entered a bit of a slump. The share price had essentially flatlined, and the business, while still profitable, was facing increasing competition from other global providers. Only the original business line, which still served the US defense subcontracting industry, was showing slight growth. The MarWidge and SemWidge units were returning cost of capital, but barely.

Buck was concerned, but also reluctant to act. It was almost unbearable for him to see the company in this state. At the same time, he had invested his credibility in the hiring of Ari and wanted to see whether he could handle this difficult situation. With Buck's urging, the board promoted Ari to the office of President and tasked him with developing a strategy to move the company forward.

Ari returned to his roots in food services, confident he had the answer to WidgeCo's dilemma. In January 2008, he proposed the acquisition of Willy Wonka Co, believing that WidgeCo's core competencies could be applied to profitably enter this new business line.

Ari believed that acquiring Willy Wonka Co. would provide needed diversification to WidgeCo and an opportunity to gain synergies from the use of WidgeCo's technologies and engineering capabilities. Further, he was convinced that the industrial and defense related segments of WidgeCo's business did not offer the same opportunities to grow as did the consumer product oriented segment of the economy that would be served by Willy Wonka Co.

From the beginning, he met with resistance from the board who did not entirely view this proposal as a natural extension of the business. Buck, however, stood steadfastly at Ari's side in recommending the acquisition and over the next several months, convinced the board to proceed and in April, WidgeCo made an initial offer which included a cash premium of 20%. Ari immediately launched a media campaign and went on the road to convince shareholders that this was a good deal for WidgeCo.

The company's major investors were not overly enthused, but the long-time institutional base had faith in Buckson Dime's record. But nothing is ever easy and another suitor emerged, Chocka Blocka Inc., who made an offer at a 25% premium. Ari, afraid of losing the deal, convinced the board to increase their offer to 30% (\$150 million) which was at the fringe of making the deal accretive. Willy Wonka Co's board eventually accepted and in August 2008, following a shareholder vote in which only 60% of WidgeCo's holders approved the deal, WidgeCo became the owner of the Willy Wonka business.

Ari took personal control of the new business line. He introduced some of his own ideas, but resisted Buck's input and that of WidgeCo's manufacturing black belts. He fired many of the Willy Wonka employees and replaced them with those loyal to himself. As a result, the WillyWidge unit was never fully integrated into WidgeCo and the culture within the unit was somewhat unique.

## CURRENT SITUATION

The company consists of four main business lines:

- **MilWidge:** The original business. Provides high tech widgets to major defense subcontractors. There is some integration with the SemWidge business line. The line is profitable and steady.
- **MarWidge:** Provides widgets to the shipping and tanker industry. The growth of worldwide economies and increased orders for shipping companies has led to the growing contribution of this line over the last several years.

- **SemWidge:** One of the few remaining US providers of widgets to the electronics industry. Its domestic ownership places it in a good position to fill time-sensitive orders for MilWidge where a foreign manufacturer would be unacceptable. The business is competitive because of its quality and has shown some slight growth.
- **WonkWidge:** Acquired in 2008. Provides widgets to the food service industry, targeted specifically to comfort food manufacturers. The business has been losing money since its acquisition and has never been fully integrated into the other product lines.

For specific financial performance, see Appendix A.

## WIDGECO MANAGEMENT

### **Dr. Buckson Dimes (59)** **Chairman and CEO of WidgeCo,** **Class I Director; Up for re-election in 2011**

Buck, as he's known to his friends, graduated near the top of his engineering class at Cal Tech in 1974. Switching coasts, he enrolled in and received his doctorate at MIT in 1977. He married his undergraduate sweetheart, Penny Nicholson, and went to work for BlastCo, Inc., one of the major U.S. defense subcontractors. He performed well at BlastCo and was soon responsible for one of the manufacturing lines. Buck is creative and entrepreneurial and in 1982, when he got into a dispute with management over improving the design of a product line, he left BlastCo to form his own company, WidgeCo. (See company history).

Buck has been highly driven and his dedication has resulted in the long-standing success of WidgeCo. He has developed a taste for the finer things in life and spends what little vacation time he takes traveling the world. At 59, he has almost achieved his goal of staying in each of the Top 50 Hotels of the World.

He is fiercely loyal and stands by his friends. Buck doesn't like to admit to mistakes and has generally made few over his career. He is well liked by employees, who generally regard him as a patriarch, and shareholders, who appreciate the returns he has generated for them through his conservative management style. His wife Penny has urged him to consider retirement, but he is reluctant to do so. He loves the business. *He is the business.* That notwithstanding, he agreed to consider his succession plans and in 2005 hired Ari Sing Starr as COO. He likes Ari and believes that someday (not anytime soon, mind you) with Buck's attention and grooming, Ari could become a good CEO. He has had misgivings about the Willy Wonka acquisition (orchestrated by Ari), but has kept his concerns to himself in order to be seen as supporting Ari. He is very conservative when it comes to managing the financial aspects of the business, having managed WidgeCo through several economic cycles since the early 1980s.

### **Ari Sing Starr (53)** **President**

Ari has an undergraduate degree in Business from the University of Texas. His first job was as a business analyst at Goldman Sachs where he worked on the team covering consumer products

companies. After 3 years at Goldman, Ari went back for his MBA at Georgetown University and following graduation, began a career at StaleCo where he performed a variety of roles in business development, strategy, and manufacturing. In 2005, a search committee from WidgeCo interviewed him as a candidate for the COO of WidgeCo. Impressed by founder Buckson Dime's organization and seeing little opportunity to advance at StaleCo, Ari threw himself wholeheartedly into the interview process and convinced the WidgeCo board he was the right man for the job.

Since joining the company, Ari has privately struggled to understand and accept the WidgeCo business model. He believes changes should be made and that he is the one to make them. He has enjoyed and appreciated Buck's support since his arrival, but secretly believes Buck should retire and turn the reigns over to him. The acquisition of Willy Wonka Co in 2008 was Ari's first push to prove himself and take the company in a new direction. As such, Ari is still personally supervising WonkWidge and views it as key to both the company's and his personal success. He has politely resisted giving up control of the unit to anyone else, though a number of capable managers from the other business units have offered advice and assistance. In truth, he will fight to the death to make WonkWidge succeed. Ari is currently spread thin with the supervision of WonkWidge taking away from some of his other responsibilities as President.

Ari is generally well liked within the organization, if somewhat aloof with respect to the other business units. He's seen as Buck's protégé and clearly has Buck's and apparently the board's support. He is dedicated to his job and is intelligent, but is stubborn and not very good at accepting input from others. His interactions with shareholders have neither been great success nor failures. He can be charming, but is sometimes viewed as arrogant, especially in his defense of WonkWidge's underperformance.

#### **Iona Lott (52)** **Chief Financial Officer**

Iona is another long-time employee of the company. She was one of the first to join Buck in his endeavors shortly after the founding of WidgeCo. Buck needed someone who could do his books and Iona, a friend of Penny Nicholson Dimes, was an accountant with a degree from Pennsylvania State University. With no personal obligations at the time, she took the risk of joining Buck's start-up and has grown both her position and wealth along with the company. Although she is an adventurer and enjoys activities like sky-diving, she is extremely conservative when it comes to company finance and often (too often in some of her staffs' minds) reminds them of how in the early days, she kept the company running using her own checking account. Iona is dispassionate when making financial decisions. "The numbers speak for themselves." Accordingly, she is concerned about the lack of success of WonkWidge and is following the financial performance closely, but has held her tongue because she understands how important it is to Buck that Ari succeed. If it were up to her, however, she would get rid of it.

Iona views shareholders as a "necessary evil," but is dismissive of those with a short-term focus on profitability. She occasionally travels with Stockton Uroo, VP IR, to see analysts or holders, but

only when no one else is available. She trusts Stock to run that part of the business and largely allows him to operate with little interference, only requiring that he report regularly on key issues. As a result, she has a rather academic understanding of the rise of shareholder activism, but is not concerned.

#### **Lawson X. Purt (39)** **VP Legal & Corporate Secretary**

"Law", as she likes to be called, is the newest member of WidgeCo's management team. She joined the company in 2010 from a large real estate law firm in Washington D.C. where she worked in the firm's commercial real estate practice.

Law is a member of The Society of Corporate Secretaries and Governance Professionals. She also serves on the boards of several non-profits and is chair of their governance committee.

Lawson received her J.D. from The American University, Washington College of Law and her undergraduate degree from Michigan State University. She is a member of the District of Columbia, Maryland and Virginia bars.

#### **Stockard G. Uroo (37)** **VP of Investor Relations**

"Stock," as he likes to be called, has a bachelors in finance from Duke. He joined the company's accounting organization right out of school and has been with WidgeCo for 16 years, moving up through the organization. Five years ago, he took a broadening assignment as the director of IR to help him learn more about the other parts of the company's business. To his surprise, he not only was good at the job, he actually enjoyed it and decided to pursue IR as a profession. Stock is liked and respected by the shareholder base and analyst community. He was instrumental in helping to sell the WillyWonka acquisition to the Street. As recognition of his continuing contributions, Stock was promoted to VP of IR last year.

Stockard is the primary contact for the Street. Buck doesn't particularly like dealing with shareholders beyond those long-term holders who have supported him over the past 20 years. Stock is essentially in place so that Buck doesn't have "to waste time with shareholders, especially those kids right out of school." Ari, on the other hand, is willing to go on the road, but gets mixed reactions. This puts Stock in a challenging, but rewarding position.

He is an active member of the National Investor Relations Institute (NIRI) and reports to Iona Lott, WidgeCo's CFO.

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### **WIDGECO BOARD OF DIRECTORS**

WidgeCo's board, consisting of 11 members including Buck, is 'old school.' Many of these directors are only peripherally involved in WidgeCo, though their long tenure and personal achievements give them confidence that Buck has and will take the company in the right direction. They collectively believe that a company should be run for the long-haul and with the exception of Ms. De Luc, have greeted recent changes in both SEC regulations and trends for more input from shareholders with a level of disdain. As a result, they are not particularly well informed about the shareholder base or trends in activism. At a recent cocktail party, one director was overheard to refer to shareholders as 'the unwashed masses who aren't capable of running across the street, much less running a company.' In fact, it was only the

passage of Sarbanes-Oxley that caused them to push Buck to begin considering a succession plan. They like Ari, but consider him an outsider. While understanding the need to outwardly support him as Buck's choice, there have been a number of informal private discussions among board members expressing concern over his lack of experience. Most believe Buck should have promoted from within.

<b>Class I Director (2011)</b>	<b>Class II Director (2012)</b>	<b>Class III Director (2013)</b>
Buck Dimes, CEO	Douglas D. Graves	Desiree Julep
I. Emma Gnu	Hugh Morris	Bedford Knight
Ulysses R. S. Krood	Elena Mae Cheetham	Turner Rench
Alotta De Luc		Daley Boost

**I. Emma Gnu (51)**

**CFO/Director, Textlnk, Butterflies for Orphans Board Member  
Class I Director; Up for election in 2011**

Emma was elected to the board in 2008. She joined the board as a result of the retirement of another long-standing director. She met Buck through MIT's alumni association and has an impressive record of accomplishments of her own. Buck learned of her relative dispassion when it comes to making the tough calls over cocktails at several alumni events and Buck's high regard for her resulted in her nomination to WidgeCo's board. She is the CFO of Textlnk, an electronic publisher of technical manuals, and serves on that company's board as well. Emma has a good understanding of shareholder issues and attitudes, spending approximately 10 percent of her time on the road visiting shareholders and presenting at conferences. Along with her IRO at Textlnk, she follows activist trends fairly closely, looking for potential warning signs. She is delighted to be part of the WidgeCo board and has a cordial relationship with the other outside directors. Emma also serves on the board of Butterflies for Orphans, a non-profit dedicated to helping orphans recognize their full potential and "transform themselves into something beautiful."

**Ulysses R. S. Krood (62)**

**Retired. Former Managing Director, Krood Oil Company;  
Director, OTC Oil Company; Director, LuftWaffle House, Inc;  
Director, Rock Bottom Industries  
Class I Director; Up for election in 2011**

Ulysses has been on the board for more than 15 years. He successfully founded, built, and eventually sold Krood Oil Company, an exploration and production company based in West Texas. He met Buck when a monsoon stranded the pair at The Oriental Hotel in Bangkok for three days. The two self-made men discovered they both had the goal of staying at the world's top hotels. In the bar, they quickly bonded over stories of the trials and rewards of founding and growing a business and became friends. Over the years, each used the other as a sounding board

for new ideas and to help troubleshoot difficult problems. One of these problems has been that of succession and Ulysses is not a big fan of Ari. He doesn't believe Ari has 'staying power' or understands what it really takes to create something extraordinary that will stand the test of time. Despite this and his belief that he's a better businessman than Buck, he will back Buck's decision about Ari until he can come to his own decision about whether Ari can cut the mustard. Since Krood Oil was a private company, Ulysses has never had shareholders of his own. However, his own personal experiences with individual investors and bankers lead him to be wary of those who have 'suggestions' about how to run a business. Ulysses is also on the board of OTC, the company which bought Krood Oil Company.

**Alotta De Luc (47)**

**Class I Director; Up for election in 2011  
President, International Sisterhood of Pool Cleaners**

Alotta has been a community organizer and social activist since she was a child raised in a mansion in Beverly Hills. During her youth, her mother, French film star Hopfour De Luc, constantly and bitterly complained about the harsh nature of the film industry and its "fiendishly enslaving 15 hour work week." But what truly captured her attention and her sympathy were the downtrodden pool cleaners who visited her home and slaved away in the oppressive southern California climate to ensure that her family's pool would sparkle. These were images she would never forget. In college, Alotta was heavily involved in the feminist and environmental movements participating in a new cause célèbre every few weeks. With her sharp mind, she graduated summa cum laude in journalism and became a reporter. But the plight of those poor pool cleaners haunted her and in the midst of an undercover exposé on the industry, it suddenly struck her—she would found a union to protect these workers. She quit the paper and against immense odds and opposition, founded the ISPC. Today, it boasts 70,000 members in over 6 different countries on three continents. Alotta met Buck at a gala charity auction and Buck was impressed by her wit and her drive. She even convinced him to hire a union pool cleaner for his own home. She has been a member of the Board for seven years. Alotta is a bit of the "odd woman out" on the Board, consistently pressing for more employees rights and environmentally friendly MarWidge products, and wants to help Buck leave a community-focused legacy. She doesn't have a great deal of business expertise and typically sides with the underdog, but she strives to be fair. Buck likes her because her passion makes him challenge his assumptions.

**Douglas D. Graves (68)**

**Class II Director; Up for election in 2012  
Chairman, President and CEO, Heavenly Holes Mortuaries,  
Inc.**

Douglas (never "Doug") is an iceberg of cold, calculating logic. Douglas comes from a long line of undertakers who initially made their fortune in the years during and after the Civil War. When he entered the family business almost 50 years ago, Douglas was a miserable failure at customer relations. When families complained that he was 'unsympathetic' and 'lacked

empathy,' his father put him in charge of the back office. His non-sense attitude and laser focus on value quickly helped improved the company's efficiency and profitability. Over time, he grew the business through M&A, buying more than 25 small family operated funeral homes. Today, he is CEO of one of the largest providers of death-related services in the mid-west. He became acquainted with Buck when WidgeCo conducted a director search and has been on his board for eleven years. Douglas has little use for shareholders and rarely appears to speak with them. As a result, he has developed a reputation for mystery and shareholders privately joke that only direct sunlight could destroy him. However, Douglas is shrewd enough to understand that shareholders (and families) need care and feeding and has hired charismatic officers and investor relations professionals to keep them happy. Douglas is driven by value fact-based analysis. Above all, he helps Buck and the rest of the Board strip away the dead wood and look at each challenge objectively. He believes the Board would be lost without his advice.

**Hugh Morris (60)**

**Class II Director; Up for election in 2012  
President, Morris Investments**

Hugh has known Buck since they were in graduate school in Boston in the early 70's. Buck was at MIT and Hugh was at Harvard Business School where he earned an MBA. They met playing Lacrosse during an intermural match when Buck broke Hugh's nose during a particularly rough block. In the heat of the moment, Hugh returned the favor. As luck would have it, they went to the same emergency room and found, after 9 hours of waiting, that they had much in common. The friendship blossomed and grew after graduation. Hugh joined Goldman Sachs and worked as an analyst in the private wealth business. When Buck was ready to take WidgeCo public, Hugh opened the right doors at Goldman. After twenty years, Hugh retired as a partner of the firm and opened his own advisory service with only a handful of clients including Buck and joined the Board 15 years ago. His passion is to create value and he evaluates any opportunity from that perspective. He made millions during his career with an uncanny ability to make tough choices about when to support new ideas and when to cut them loose. Hugh is engaging, witty and enjoys playing small practical jokes. His one remaining goal in life is to get a reaction from Douglas Graves to one of his pranks.

**Elena Mae Cheetham (55)**

**Class II Director; Up for election in 2012  
General Counsel/Director, Alarico Systems**

Elena is the high flying Chief Counsel of Alarico Systems, a California-based firm that manufactures critical components for ballistic missile early warning systems. A dual JD/MBA graduate of the Kellogg School of Management, Elena has pursued her career with a single-mindedness that has left little time for relationships beyond her miniature Schnauzer. When she does socialize, it is always with the ulterior motive of creating opportunities for herself or her firm. She met Buck on one such occasion at a gala supporting the defense industry's premier lobbying group, Bigger Bombs Make for Better Neighbors. During

the evening, Buck came to understand that Alarico and his own MilWidge division faced many of the same challenges under the new world order. They also shared many of the same views on how to solve those problems and agreed to keep in touch. Five years ago, when an opening on the Board arose, Buck convinced the Board to add Elena. She is proud to be on the WidgeCo Board and hopes to remain there for a long time.

**Desiree Julep (59)**

**Class III Director; Up for election in 2013  
Chairwoman Emeritus of the Charleston SC Women Realtors Association**

Desiree is one of Charleston's best known socialites. Married to Major General Iva Julep II (retired), she ran a moderately successful real estate practice in the Charleston area following her retirement from professional tennis. Always a tier or two removed from the big named tournaments, Desiree travelled the world extensively during her tennis career. Although she rarely won any tournaments she enjoyed the tennis social scene and – because she came from what is known as “old wealth”, funding her lifestyle was never a problem. Iva is her fourth husband; they met during a tournament in Monte Carlo in the mid-nineties; he was British army and apparently very dashing in his uniform. Desiree was a childhood friend of Buck's wife Penny Nicholson Dimes. Over the years, the Dimes, Desiree and whoever her latest beau was would vacation together in exotic locations. Buck asked Desiree to join the board of WidgeCo because he admired her forthright nature, keen instincts and her extensive Rolodex of connections.

**Bedford Knight (64)**

**Class III Director; Up for election in 2013  
Chief Executive Officer, Lapofluxury Hotels Inc.**

Bedford runs a small group of exclusive hotels in the Caribbean, the Bosphorus and southeast Asia. Frequently listed in high-end travel guides as hospitality resorts “to die for”, Buck and Bedford became firm friends over 20 years ago as Buck began to travel the world in search of luxury vacation destinations.

Lapofluxury hotels is a closely-held firm listed on the Riga Stock Exchange in Latvia. Its major shareholders include a retired Serbian general, a West African minerals trader and a member of FIFA's executive committee (Fédération Internationale de Football Association - the world governing body for soccer). Bedford is a 10% owner. A graduate of the Culinary Institute of America in Hyde Park NY, Bedford's career advanced through years of grueling service as sous-chef, executive chef, hotel manager and then group executive with some of the world's largest hospitality companies. In 2005, he was headhunted by the New York-based executive search firm of Rockstar & Saint to join Lapofluxury Hotels. The package that he was offered was too good to turn down, and so far he is enjoying the opportunity to run his own show.

He joined WidgeCo's board in 2007 at Buck's behest.

### **Turner Rench (60)**

**Class III Director; Up for election in 2013**

**Chief Engineer, Goingup Construction Company**

Turner and Buck were classmates at MIT. Chuck always admired Turner's strong engineering capabilities. He was always first to solve the lab tests and build out the prototypes; Buck and he spent many late nights debating engineering principles over a glass of beer -- or six.

After leaving MIT, Turner joined an oil and gas company in the Middle East and spent many years as an expat in the Emirates. He returned to the US in 1995 to join an engineering consulting company in Boston, gradually leaving engineering behind and working his way up the corporate chain. Goingup Construction approached him in 2004 to serve as its top technical executive – a combination of engineering guru, corporate ambassador and industry thought leader.

The stock price of Goingup had been coming down during these recent recessionary years as corporate real estate investments were being deferred. Turner was beginning to worry about the solvency of the company and – deep down – hoped that one day Buck would approach him to work with WidgeCo full-time.

Turner joined the WidgeCo board in 1996 soon after he returned to the US. Buck values his technical expertise and frequently discusses new ideas and technical problems with his old friend.

### **Daley Boost (44)**

**Class III Director; Up for election in 2013**

**Founder and CEO, New Age Vitamins**

Daley is a serial entrepreneur and an inveterate optimist; he had never had a bad day in his life. At 14, Daley was running a franchise of lemonade stands throughout his home town of Nowhere, Illinois. He leased the stands and marquees to incorrigible 12 and 13 year olds, supplied the ingredients, provided sales training and skimmed 40% off the top of all revenue. Over the next few years he built up enough of a nest egg to fund his first two years of college and sold the "It's hot out here™" brand, equipment and intellectual property to a street gang who lived on the other side of the tracks and diversified the business into specialty chemicals.

At Texas A&M he studied Retail Studies and in parallel set up a chain of yoga studios, tapping into the knowledge base of a group of India students who were in the engineering school. YogiKarma™ ultimately went bust but he learned a lot, and over the next several years started seven other businesses, three of which he flipped for considerable financial gain.

Daley met Buck's wife Penny Nicholson Dimes at the CloudNine Healing and Spiritual Rejuvenation Retreat in Kerala, India in 2005 and they immediately bonded. Penny encouraged Buck to meet Daley because of his entrepreneurial skills; she felt that Buck needed some fresh ideas at WidgeCo and she had never been a fan of Ari Sing Starr despite Buck's undoubted confidence. Against his better judgment and to appease his wife, Buck invited Daley to join WidgeCo's Board last year. He certainly has plenty of ideas, but Buck always wonders if Daley is getting some type of synthetic boost from his own new age vitamin products.

## **ACTIVIST INVESTORS**

### **Yuri N. Trubl, Managing Director**

**Chumming Waters Hedge Fund, L.P.**

Mr. Trubl has been Managing Director of Chumming Waters, L.P., a New York-based hedge fund, since its formation in June 2000. Prior to founding Chumming Waters, Mr. Trubl worked as Chief Investment Officer at CAS Capital Advisors between 1996 and 2000 and as an investment analyst and portfolio manager at Sporos Investment Kapital from 1983–1996.

In addition to his role at Chumming Waters, Mr. Trubl serves as a director on a variety of public boards including SquakCo (NYSE), Schnoggs, Inc. (NASDAQ), and Sedgewick, Inc. (NASDAQ). Chumming Waters currently owns between 8 and 12 percent of each of these companies and through Mr. Trubl's involvement, shareholders have enjoyed significantly improved returns.

Mr. Trubl began his career at the State Bank of USSR in 1978. In 1993, he joined the newly formed Russian investment bank Tovarich Group working in New York as a consumer goods analyst. He received his undergraduate and graduate degrees from the Institute of Financial Management at the State University of Management in Moscow, Russia where he is a frequent guest lecturer on valuation and capitalism. He is a regular guest on CNBC and on the Russian Business Channel (RBC). Mr. Trubl enjoys sport fishing and is a world record holder at the semi-annual South African Shark Fishing Extravaganza. He is also the current President of the Activists Hedge Fund Association (AHFA).

### **D. Mandy More, Managing Director**

**Catalyst Investment Partners, L.P.**

Mr. More is the Managing Partner of Catalyst Investment Partners, a \$750 million Philadelphia-based hedge fund focused on "Value Investments with a Catalyst". Catalyst typically invests in companies that can achieve outsized returns if a company examines strategic alternatives, culminating in a sale of the entire business or divestiture of a lagging business unit.

Mr. More is often quoted in the media on issues relating to activist investing and is well-respected within the investment community as someone who believes strongly in the value of good corporate governance. However, he also has a reputation as a contrarian and his abrupt tone and engagement style can be perceived as condescending and, at times, quite difficult to work with.

Since forming Catalyst in 2004, More has been on the board of directors of 12 different public companies. In all cases, the company has either been sold (in part or in total), implemented a special dividend, or undergone a share repurchase program.

While 2008 through 2010 were difficult times for the highly-concentrated investment fund, Catalyst has achieved an average 8.5% annualized return for investors since its inception.

D. Mandy More received his undergraduate degree from The Wharton School at The University of Pennsylvania and an MBA from Harvard Business School. Prior to forming Catalyst, More was employed by Barclays Capital in New York and London, initially in the private equity group and then later as a merger arbitrage specialist.

**APPENDIX A: WIDGECO FINANCIALS 2007 – 2011(PROJECTED)**

WIDGECO (\$ in thousands)

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Projected 2011
<b>Sales</b>	<b>895,000</b>	<b>1,007,650</b>	<b>1,220,686</b>	<b>1,245,426</b>	<b>1,245,980</b>
% Growth	7%	12.6%	21.1%	2.0%	0.0%
<b>COGS</b>	<b>609,350</b>	<b>688,505</b>	<b>840,725</b>	<b>857,274</b>	<b>857,160</b>
MilWidge	167,500	179,225	191,771	197,524	199,499
MarWidge	217,600	232,832	249,130	256,604	259,170
SemWidge	224,250	239,948	256,744	264,446	267,091
WonkWidge	-	36,500	143,080	138,700	131,400
<b>Gross Profit</b>	<b>285,650</b>	<b>319,146</b>	<b>379,961</b>	<b>388,152</b>	<b>388,820</b>
%	32%	32%	31%	31%	31%
<b>Sales &amp; Marketing</b>	<b>81,300</b>	<b>91,991</b>	<b>112,680</b>	<b>114,873</b>	<b>114,832</b>
%	9%	9%	9%	9%	9%
<b>General &amp; Admin</b>	<b>98,450</b>	<b>111,842</b>	<b>138,195</b>	<b>140,797</b>	<b>140,658</b>
%	11%	11%	11%	11%	11%
<b>R&amp;D</b>	<b>44,750</b>	<b>50,383</b>	<b>61,034</b>	<b>64,321</b>	<b>64,369</b>
%	5%	5%	5%	5%	5%
<b>Operating Expense</b>	<b>224,500</b>	<b>254,215</b>	<b>311,910</b>	<b>319,990</b>	<b>319,858</b>
<b>EBIT</b>	<b>61,150</b>	<b>64,931</b>	<b>68,051</b>	<b>68,162</b>	<b>68,962</b>
Operating Margin	6.8%	6.4%	5.6%	5.5%	5.5%
<b>Interest Expense</b>	0	1,600	6,400	6,400	6,400
<b>Tax Rate</b>	38.0%	38.0%	38.0%	38.0%	38.0%
<b>Net Income</b>	<b>37,913</b>	<b>39,265</b>	<b>38,223</b>	<b>38,292</b>	<b>38,789</b>
Avg Shares Outstanding	75,000	75,000	75,000	75,000	75,000
<b>EPS</b>	<b>\$0.51</b>	<b>\$0.52</b>	<b>\$0.51</b>	<b>\$0.51</b>	<b>\$0.52</b>

## APPENDIX B: WIDGECO SHAREHOLDER PROFILE

### WidgeCo - Shareholder Composition

June 1, 2011

Shareholder Categories	Shares	Shares controlled as a % of outstanding
Institutional Investors	46,250,000	61.67%
Chumming Waters & Catalyst Fund	3,750,000	5.00%
Banks (Other than Institutional Investors)	750,000	1.00%
Brokers	18,750,000	25.00%
Officers and Directors	1,000,000	1.33%
Registered Holders	4,500,000	6.00%
<b>Total:</b>	<b>75,000,000</b>	<b>100.00%</b>

### WidgeCo - Investor Summary

	Manager	Votable Shares	% Of O/S	Contact Name	Phone	Proxy Advisor(s)	Guidelines Followed
1	<b>Botlod O. Mune Associates</b>	5,625,000	7.50%	T. Barclay Dodge	(603) 555-6552	IS <sup>2</sup> Glass Louis	In-house
2	<b>Small Town Investors, LLC</b>	3,825,000	5.10%	Adam Zappel	(617) 555-4554	IS <sup>2</sup>	IS <sup>2</sup>
3	<b>Chumming Waters Hedge Fund Catalyst Investment Fund</b>	3,750,000	5.00%	Yuri Trubl D. Mandy More	(212) 555-9400	IS <sup>2</sup> Glass Louis	In-house
4	<b>WRT World Corporation</b>	2,925,000	3.90%	Barb E. Dahl	(212) 555-9552	IS <sup>2</sup> Glass Louis	In-house
5	<b>Cutten Runn Partners</b>	2,700,000	3.60%	Nick O'Time	(610) 555-1557	IS <sup>2</sup> Glass Louis	In-house
6	<b>Buick &amp; Taalbon</b>	2,025,000	2.70%	Rose Gardner	(415) 555-1550	IS <sup>2</sup>	In-house
7	<b>Worldly Asset Management</b>	1,800,000	2.40%	Joe King	(203) 555-4555	IS <sup>2</sup>	In-house
8	<b>ABC-123 Corp.</b>	1,350,000	1.80%	Heidi Claire	(212) 555-6556	IS <sup>2</sup> Glass Louis	In-house
9	<b>LongTerm Holders, Inc.</b>	900,000	1.20%	Lena Ginster	(415) 555-7558	IS <sup>2</sup> Glass Louis	In-house
10	<b>Gid. E. Investors</b>	720,000	0.96%	Phil Rupp	(410) 555-2550	IS <sup>2</sup> Glass Louis	IS <sup>2</sup>