



# THE CLEAN YIELD

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## Capital Steps

Washington State to Washington, D.C.: Clean Yield portfolio manager Dorigen Hofmann recently made that great leap eastward. With the move, Dorigen's longtime interest in politics has landed on notably fertile soil. A new Clean Yield office near DuPont Circle opens up a new avenue for us in pressing for corporate change: face-to-face public advocacy, sometimes called (gasp) lobbying.

Dorigen's move parallels a movement within the wider social investing field. Not many years ago, public advocacy was off the menu in social investment circles. Our strategy for moving companies toward responsibility had been limited to shareholder proxy resolutions and dialogue. Then, in 1998, a right-leaning SEC

shook our world with a series of proposals designed to choke out social proxies. Our trade association, the Social Investment Forum (SIF), reacted with an all-points campaign in opposition. We surprised even ourselves when an unprecedented-in-SEC-history 25,000 letters, calls, and e-mails poured in. Overwhelmed, the agency cried uncle.

That experience helped us recognize that, united, we were no longer a fringe movement but a potential political force. In 2003, we joined to beat back another SEC move to restrict proxies. The SIF has grown—our association is now 400 members strong, and, together with closely allied pension funds and other institutional investors, we stand for trillions of investment dollars—and we are finding our voice. No longer merely trying to hold our ground, we're advancing SRI positions with Congress, the SEC, and the administration. The fundamental policy message: corporations must be transparent and consider the interests of all stakeholders, including Mother Earth.

In June, shortly after setting up shop in D.C., Dorigen joined 15 or so SIF colleagues for "Hill Day." This event was an initial step in developing a cadre of advocates for social investing and the policies it embraces. As a Vermonter representing a Vermont-based company, Dorigen chose to visit the offices of that state's delegation: Senators Leahy and Sanders and Rep. Peter Welch. There she talked with key staffers about such SRI concerns as say-on-pay (see right), climate change legislation, and ensuring that the federal pension system offers a social-investment fund option. As new campaigns are developed, the Washington-area forum members, including Dorigen, will be retracing their steps up Capitol Hill. ■

## Say-on-Pay Has Its Day

In the physics of the corporate world, the irresistible force of executive pay hardly ever meets any immovable objects, so it just grows and grows. Neither red-ink financials, nor plunging stock prices, nor public outrage seem to dampen board compensation committees' largesse.

Two years ago, a major union, AFSCME, and a network of social investors led by Walden Asset Management, mounted a campaign to shine more light on the executive reward system in the hope that shareowner pressure might dampen the ardor of execs and their boards for pay increases. That year, 50 companies with particularly disproportionate pay packages saw resolutions that asked for annual, non-binding votes on executive compensation in their proxy statements. These "say-on-pay" votes are advisory only, designed to make boards aware that shareholders are watching closely. The following year, the resolution was filed at 90 companies, and this year over 100 companies will see resolutions filed. Clean Yield recently filed at Rockwell Collins on behalf of a client.

Is all this having an effect? Too early to tell. Say-on-pay has been criticized, because shareholders have short memories and tend to be forgiving of outsized pay packages if their stock holding is financially rewarding. But one effect is certain: these resolutions are popular, gaining support at levels unheard of for social proxies. For the two years of the campaign, the proxies averaged 43% in favor, while most social resolutions fall in the 5% to 20% range. This year, at 11 of the 80 companies where the resolutions came to an actual vote, they gained more than 50% of the vote. Traditional mutual

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### A Pair of Just-So Stories

Every day, every genre of story plays out in some form on Wall Street. The romantic story might be the account of the wooing of one company to merge with another; the dramatic story might be the fall of a food company's earnings due to product contamination from an e-coli outbreak; lately the mystery narrative has been represented by a stream of disappearing CEOs, cash in hand, with investors left holding the bag.

The definition of the classic "story stock" is one that is anticipated to climb higher in price, not because of good management or financial valuations, but because of an underlying sexy tale that, at least at first telling, makes its climb inevitable and a no-brainer.

It shouldn't be surprising that the brokerage industry was built on story stocks. It is much easier and more lucrative to cold-call an investor and sell them an intriguing story than to recite a string of numbers that are, at best, boring.

Story stocks have a somewhat-deserved, grimy reputation. When too many investors hear the same good story, every company that can be even remotely tied to it tries to become a participant in the story, and an investment bubble develops. Whether it's a prized variety of tulip or a biotech company that is going to cure all that ails us, most of the companies that make up the bubble wind up as only fairy tales—short stories with dismal endings.

But every story isn't fiction. From time to time a good company with strong fundamentals and earnings and a solid balance sheet is in the right place at the right time. Such companies make good short stories in themselves and become chapters in a larger novel. Both companies profiled this month, Neogen and Insituform, fit the profile

When each of these companies first traded publicly, they were the dubious type of story stock: all speculation, no history of proven success.

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## INSITUFORM TECHNOLOGIES, INC. (INSU)

**Revenues:** \$538 Million

<b>EPS:</b> 2010E	\$ 1.13
2009E	\$ 1.00
2008A	\$ 0.72

**Web site:** [www.insituform.com](http://www.insituform.com)

**Projected Annual Growth Rate:** 10%

**Dividend:** 0%

**52-Week High-Low:** \$21.28 – \$9.26

**Risk:** Medium

### Silver Lining

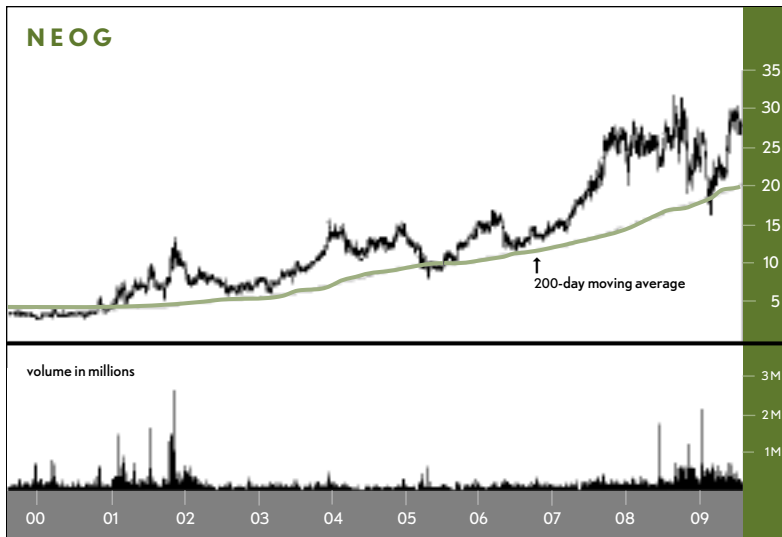
Insituform repairs and rehabs underground pipes using a proprietary technology that requires no trenches be dug. Simply put, the company sends small robots into pipe systems to monitor and take photos of any problems. When a crack, corrosion, or other issue is revealed, a second robot feeds a tube through the pipe. Workers inflate this tube, which hardens and seals the problem areas. Old pipes are made new without having to reconstruct entire underground pipe systems, causing less disruption and, in many instances, lower costs. Insituform's primary market is municipal water, although the company has recently expanded into oil and mining pipelines as well.

With its unique technology, Insituform is well situated to take advantage of the current flood of water-system maintenance needs. Municipal infrastructures are aging and in desperate need of repair; many American cities have water and sewer systems that are 100 years old and more. The 2009 Federal stimulus package targets \$6 billion towards water projects, including improving and replacing drinking-water infrastructure. As these funds trickle down to cities and towns, Insituform has been actively bidding on the work. The company nearly doubled its profits during the past year by winning new contracts, keeping a tight grip on expenses, and acquiring two smaller companies.

Management expects \$200 million in new business over the next two years, so profits should continue to flow. Although Insituform's debt also increased this year due to the acquisitions, cash flow and revenues are keeping pace, and the new acquisitions are already adding to the bottom line. INSU's stock price, which has been quite volatile over the years, reached a two-year high in February after the stimulus bill passed. It is on a pace to revisit those highs in the weeks ahead.

### Corporate Responsibility

Water and sewer networks throughout the U.S. and around the world are literally cracking and causing millions of gallons of fresh water to be lost daily. Likewise, harmful untreated sewage is being released. Insituform's business is of particular interest to social investors, because its product helps conserve water and prevent sewer leaks. The company has also worked on gray-water systems, which allow the recycling of non-sewage in water-poor areas. Insituform has had safety problems in the past, including a fatal accident in Iowa in 2002 due to a sewer pipe that filled with hydrogen gas during repairs. The company responded with new safety procedures and policies that have since earned it an OSHA award. Insituform's board includes two women and one minority. ■



## NEOGEN CORP. (NEOG)

**Revenues:** \$118 Million

**EPS:** 2010E \$ 1.18  
 2009E \$ 1.00  
 2008A \$ 0.92

**Web site:** www.cn.ca

### Cleaning Up

A bad-news story can sometimes make a good investment story. Such is the case for Neogen, a biotech company that produces test kits to detect contamination in food and animal products. For more than 25 years, Neogen's reagents and supplies have helped food growers and producers identify food-borne bacteria, natural toxins, genetic modifications, and other impurities in human and animal food. Food contamination and safety do not heed recessions; since January, 80 food items have already been recalled.

Growers and producers turn to companies like Neogen to ensure that their consumables meet regulatory standards, keep people and animals healthy, and ensure their own reputations stay intact. In response to growing concerns about food allergies, Neogen recently developed rapid tests that can detect for cross-contamination of substances, including milk, egg, peanuts, and soy.

Financially speaking, Neogen closed out a year of record revenues and earnings. Management attributed the earnings growth to a nimble sales force and a production team that is the low-cost producer in its field. The company has made several strategic acquisitions over the years to expand its testing supplies to animal feed and international venues. International sales grew to almost 40% of Neogen's total business in 2008, an impres-

**Projected Annual Growth Rate:** 10%

**Dividend:** 0%

**52-Week High-Low:** \$31.95 – \$16.50

**Risk:** Medium

sively broad reach for a company with fewer than 500 employees. The U.S. House passed a bill in July that would increase the FDA's authority to prevent food contaminants, thus allowing the agency to be proactive rather than reactive. If, as expected, the Senate passes a similar bill later this year, the resulting regulations will increase the market for food-testing products. With no debt, a strong balance sheet, and increasing market share, Neogen is well positioned to take advantage of the stricter regulatory climate.

### Corporate Responsibility

Neogen is of interest to social investors primarily because it produces items that keep the public healthy. The company is seeking out new markets that are of particular social promise. For example, in June, Neogen partnered with the Chinese government to research local food-safety concerns and develop test kits appropriate for the Chinese marketplace. In addition to growing profits for Neogen, this type of partnership will help keep food safety standards high around the world. The company's production facilities are ISO 9001 certified, which means they must maintain an environmental management system. There is one woman among Neogen's senior executives but still no women or minorities on the board. ■

*Market Notes continued from page 2*

Even their names, presumably crafted to garner immediate investment interest, had enough modern strangeness about them that only aggressive investors took note. Fortunately, both companies, beyond merely taking advantage of their times, have been tested by adversity. Today, they have emerged as stories well worth telling. ■



## SOCIAL NOTES

✱ Women CEOs lead just 12 of the Fortune 500 companies, and one was Xerox with Anne Mulcahy at the helm. In June, Mulcahy moved over to become chairman and lol, the CEO slot was filled by another woman, Ursala Burns. Passing the CEO baton woman-to-woman is a first for a Fortune 500 company. But there's more: Ursala Burns is African-American. Growing up in a poor, single-parent family on the lower East Side, she rose to be president of Xerox in 2007.

✱ **Verizon Communications** seems hard-wired for workplace awards. It has received the Alliance for Workplace Excellence Seal of Approval for seven years running, and *Working Mother* magazine listed it in "100 Best Companies for Working Mothers" for eight years in a row. *Men's Fitness* ranked the company as one of the "15 Fittest Companies in America" for its gym facilities, cafeteria menus, and other healthy programs.

✱ Fed Chairman Ben Bernanke recently shouted out to the Calvert Foundation by describing **Calvert Notes** to a "T." In a speech to the Global Financial Literacy Summit, Bernanke stated, "One CDFI has created a product... 'community development notes' that are invested in community development organizations. The fund has raised capital from 4,700 individuals and invested about \$160 million; further, it has performed well, with an average 3% rate of return to investors and very low loss rates."

## In Good Company

**H**ave you ever asked yourself whether it's better to gas up at Sunoco or Chevron, or whether Adidas or New Balance running shoes get more traction from a social point of view? Though it's not exactly our line of work, we find ourselves fielding these questions all the time. (We ask them of ourselves, too.)

The straight scoop is that concepts like "good" and "social" won't be measurable until someone comes up with answers to questions like how many tons of avoided CO<sub>2</sub> are equivalent to having a woman on the board of directors. The worthy attempt to sort the ethical from the unethical in the corporate world never seems to ring true in practice, and it occasionally creates some highly dissonant chords. Case in point: Exxon Mobil and Monsanto are both among the top 20 in *CRO* magazine's "100 Best Corporate Citizens 2009." We'd relegate both to the far side of the Styx.

At Clean Yield we try to avoid some of the ratings contortionism by following a handful of measurable rules—for example, we screen out companies with more than 2% of their revenues in Dept. of Defense contracts—and using our best judgment for the rest. For information, we subscribe to commercial databases, such as KLD's Socrates, and also do our own company-by-company research.

Depth research of that kind is too time-consuming and expensive for answering most people's day-to-day questions, but happily, the Web is beginning to yield insight into corporate behavior in easily-available summary form.

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Here's a sampling:

### Responsible Shopper

<http://responsibleshopper.org/>  
Green America's dramatically improved site features plenty of information about major companies and also compares records within an industry. (FYI, Sunoco overtops Chevron, and New Balance beats out Adidas, in this site's view.) Boycotts and other campaigns are included in an "Act" section.

### GoodGuide

<http://www.goodguide.com/>  
Winner of the 2009 *Crunchies* award for the Web site "Most Likely to Make the World a Better Place," the site gleans corporate responsibility information from respected research sources, but so far, the products covered and their relative ratings just scratch the surface. GoodGuide categories are currently limited to food, personal care, household chemicals, and toys.

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### Vanno

<http://vanno.com/>  
A user-driven site focused on corporate reputation. Using a community-participation approach, Vanno finds, or elicits from users, news stories from around the world about companies' comportment. Then readers are given the opportunity to comment in agreement or not. The news, opinions, and some ratings are free, but comparison and trend information is available only to "pay what you think it's worth" subscribers.

### Crocodyl

<http://www.crocodyl.org/>  
CorpWatch, the Center for Corporate Policy, and the Corporate Research Project are sponsoring this site, which is developing publicly available profiles of the largest corporations. "Evolving" is the

operational term here, but the site, based on wiki-style user participation, has promise to become a key information center for journalists and activists of all stripes to access critical research on corporations. A brand-new site, **CrocTail** (<http://croctail.corpwatch.org/>) gets readers easy access to corporate subsidiaries and other SEC data.

Here are four more specialized, easy-to-use Web sites:

For climate change rankings in consumer-goods categories, check out **ClimateCounts** (<http://www.climatecounts.org/>)

For companies that test—and those that don't test—on animals, PETA sponsors a site called **Caring Consumer**. (<http://search.caringconsumer.com/>)

**Responsible Consumption** (<http://responsibleconsumption.com/>) is a directory of directories for companies involved in everything from Fair Trade and sustainable wood products to employee-owned companies and local-food purveyors.

**The Ethical Consumer** is a British counterpart to Green America. Its Web site, <http://www.ethicalconsumer.org/>, offers reports and ratings on a wide array of consumer products. ■

### Say-on-Pay *continued from page 1*

funds and pension plans that have had records of almost always siding with company brass found themselves voting against.

Perhaps even more important, say-on-pay resolutions are helping swing the regulatory pendulum back to being more shareholder-rights friendly. The 400 or so corporations benefiting from the TARP bailout are required to put executive compensation packages up for a vote. And at this writing, Congress seems likely to pass a bill that would require advisory votes on pay at most public companies. ■

We believe that the public and original sources used in developing this publication are factual and without error, however their accuracy cannot be guaranteed. Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisors Act of 1940, we advise all readers that they should not assume that all current or future recommendations will be profitable or will equal the performance of previous recommendations. The officers and/or employees of Clean Yield may from time to time have positions in the securities mentioned herein.