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MAGAZINE

A PUBLICATION OF NYSE EURONEXT



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ahead of short-term savings



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"It's not about me; it's not about power or control. It's about empowering everyone else."

— Walt Bettinger, president and CEO, Charles Schwab Corp.



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COVER: JONATHAN SPRAGUE; THIS PAGE, CLOCKWISE FROM LEFT: JONATHAN SPRAGUE; GREGORY MILLER; ANDREW FRENCH

THIS ISSUE SHOWCASES the persistent drive of many of our listed companies to better serve their customers. Start with our cover story, which presents the unwavering commitment of Charles Schwab Corp., which we proudly welcomed back to the NYSE in March, to improving customer satisfaction and engagement. By evaluating every decision “through clients’ eyes,” leaning on this guiding philosophy as it navigated the recent turmoil, the company has steadily grown its customer base while delivering on innovation and lowering investor costs. Likewise, as the profile on page 24 reveals, Dollar General transformed itself by looking at every aspect of its retail operations through its customers’ eyes. And as the Q&A on page 10 with entrepreneur and Green Dot founder Steven Streit points out, this leading enterprise got its start because Streit discovered and filled an untapped customer need.

At NYSE Euronext, we too have shaped our mission around the customer. We not only operate the most important marketplace, but deliver innovative products and services to the world’s capital markets community. We help participants run their businesses more efficiently and profitably using our technology and scale and connect them via our ever-expanding network. We recently made substantive investments in that network through a strategic partnership with Corporate Executive Board (see “Intelligent Alliance” on page 5) and the acquisition of Corporate Board Member, two leading providers of education and thought leadership. Both initiatives will help us develop and distribute valuable programs and services throughout our community.

We have also been actively advocating on behalf of our community of investors and listed companies. The inaugural Beltway Breakdown column on page 44 sheds light on our advocacy efforts, a top focus of which was the financial regulatory reform bill. This complex piece of legislation might not be perfect, but we believe it strengthens the U.S. financial system and steers clear of misguided proposals that might have caused setbacks for free markets and American competitiveness. Read more about market regulation in the Q&A with NYSE Chief Regulatory Officer Claudia Crowley on page 43.

As we digest these and other reforms, companies are seeking opportunities in the U.S. and around the world. The story that begins on page 30 examines the ambitions of several leaders at the forefront of India’s expansion. And the piece on page 42 further illustrates how we at NYSE Euronext are broadening and deepening our networks with the launch of a market in London. These and many other developments build strong momentum heading into 2011 as we invest in our technology, our people and our customers — our most important resources.

Sincerely,



CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS
Certain articles about NYSE Euronext in this magazine may contain forward-looking statements, including forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements concerning NYSE Euronext’s plans, objectives, expectations and intentions and other statements that are not historical or current facts. Forward-looking statements are based on NYSE Euronext’s current expectations and involve risks and uncertainties that could cause ac-

tual results to differ materially from those expressed or implied in such forward-looking statements. Factors that could cause NYSE Euronext’s results to differ materially from current expectations include, but are not limited to: NYSE Euronext’s ability to implement its strategic initiatives; economic, political and market conditions and fluctuations; government and industry regulation; interest-rate risk and U.S. and global competition; and other factors detailed in NYSE Euronext’s reference document for 2008 (“document de référence”) filed with the French Autorité des Marchés Financiers (registered on April 28, 2009 under No. R. 09-031),



GREEN DOT Chairman and CEO Steven Streit (center), President Mark Troughton (left) and CFO John Keatley break for a pose during the company’s July 22 IPO celebration.

**“WE HAVE BEEN ACTIVELY
ADVOCATING ON BEHALF OF
INVESTORS AND ISSUERS.”**

DUNCAN’S TOP FIVE

MARKET TREND Despite a recovery in earnings, balance-sheet strength and IPOs, the lack of new jobs needed for a full recovery is weighing heavily on the market.

PEER-TO-PEER We’re working to promote job creation by pursuing tax policies that spur investment and lower capital costs, and to streamline Sarbanes-Oxley to reduce the burdens of going public for small and medium companies.

NYSE EURONEXT INITIATIVE The expansion of our Paris-based BlueNext carbon-trading business to the U.S. and Asia via NYSE Blue™, a strategic venture with APX Inc.

MEMORABLE QUOTE From our roundtable (see page 18): “Uncertainty and instability are the enemies of recovery.”

RECENT TRIP To Europe, to meet with our board, our regulators, our new partners at the Warsaw Stock Exchange and for ribbon-cutting ceremonies at our new Belfast facility.

2009 Annual Report on Form 10-K and other periodic reports filed with the U.S. Securities and Exchange Commission or the French Autorité des Marchés Financiers. In addition, these statements are based on a number of assumptions that are subject to change. Accordingly, actual results may be materially higher or lower than those projected. The inclusion of such projections herein should not be regarded as a representation by NYSE Euronext that the projections will prove to be correct. Articles in this magazine speak only as of Sept. 20, 2010. NYSE Euronext disclaims any duty to update the information herein.

ELAN CORP. PLC (ELN) fights Alzheimer's. **ON THE WEB**
 THE PROCTER & GAMBLE CO. (PG), THE WALT DISNEY CO. (DIS),
 PEPSICO INC. (PEP) and others help out in the Gulf.

upfront

Inside a high-temperature flare, in which methane from landfill gas is oxidized



Trash Talk

Company: Bionersis, a Paris-based energy company specializing in turning landfill gas into energy and actively engaged in tackling the challenge of global warming

Market Cap: €23.7 million (US\$31.4 million)*

Eighteen miles outside of Bangkok, the Sai Noi landfill, which has been in operation since 1982, is releasing gases and dirty water into the atmosphere and surrounding area. **BIONERSIS** (NYSE Euronext: ALBRS) will soon begin the task of trapping those gases, removing 480,000 tons of CO₂

equivalent over 10 years — comparable to taking 80,000 cars off the road. This project, according to Chairman Frédéric Pastre, is an effort to not only address the fast-growing waste-management and energy consumption challenges in Asia but also promote environmental activity and create sustainable jobs locally. “The



“THE LANDFILL GAS-TO-ENERGY SOLUTIONS ARE PERFECTLY SUITED TO LOCAL NEEDS.”

landfill gas-to-energy solutions provided by Bionersis are perfectly suited to local needs in terms of technology, economics and social responsibility,” he says.

Bionersis says the landfill will be covered with dirt, then vertical wells will be drilled and the gas will be pumped out, captured and either burned or used as fuel for electricity-producing generators. “Removing these emissions, as well as other noxious gases contained in the landfill gas that is emitted,” Pastre says, “is a clear and significant health and environmental benefit for the local population.” — *Bridget McMahon*

Class in Session

Company: First Horizon National, a Memphis-based financial services company

Market Cap: \$2.6 billion

Memphis resident Carlos Tatum's lack of financial knowledge was creating a big problem for him, and he wasn't alone. The city's poverty rate is 24 percent, and unemployment stands at 10.4 percent, according to Tonya Crowder, director of the Life Skills Institute of the Metropolitan Inter-Faith Association, or MIFA, a nonprofit whose programs include helping those living in transitional housing get back on their feet. »

*All market caps as of Sept. 20, 2010

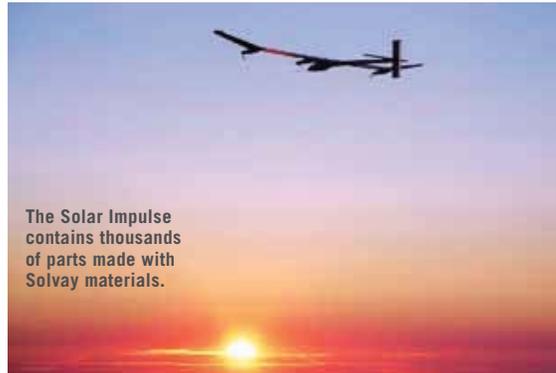
Recognizing that education is one solution, MIFA approached First Tennessee Bank, a subsidiary of **FIRST HORIZON NATIONAL CORP.** (FHN), which worked with the Life Skills Institute to create a money-management class for individuals. Angelia Allen, a senior vice president at the bank, says the program is taught once a week for a year and is divided into four sessions: banking services, budgeting, consumer awareness and understanding credit.

Tatum is one of dozens attending the sessions. “The classes are giving me an opportunity to learn how to effectively grow my finances and develop a better awareness of my personal resources,” he says. “They’re helping me learn how to invest and use my money wisely over time.” — *Chris Warren*

Flying in the Dark

Company: Solvay, a Brussels-based chemical and basic materials company
Market Cap: €6.6 billion (US\$8.8 billion)

A nighttime flight powered by solar energy might sound impossible, but in July, when pilot André Borschberg landed the Solar Impulse aircraft in the Swiss town of Payerne to conclude a journey of 26 hours and 9 minutes, the idea became a reality. Along for »



The Solar Impulse contains thousands of parts made with Solvay materials.

the historic ride was **SOLVAY SA** (NYSE Euronext: SOLB), which in 2004 became the first main sponsor of the project. “Solar Impulse is a perfect symbol of the major efforts and technological leaps needed to enter new territories implied by sustainable development,” says Christian Jourquin, Solvay’s chairman and CEO. He says that by being a part of the project, Solvay was able to test and demonstrate products such as the advanced polymers used in the manufacture of more than 6,000 Solar Impulse components, including the cockpit shell, throttle box, landing gear and battery parts.

Jourquin estimates that Solvay devoted nearly \$15 million to the project. The investment, he says, was about “developing and producing innovative materials and technological solutions.” — *Patty Orsini*

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THE NUMBER OF CONSECUTIVE HOURS THE SOLAR IMPULSE WAS IN THE AIR IN JULY, MARKING THE FIRST NIGHTTIME FLIGHT POWERED BY SOLAR ENERGY, ACCORDING TO SOLVAY

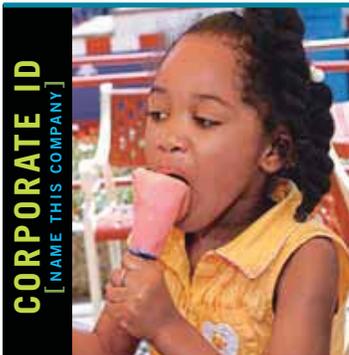
Intelligent Alliance

Company: The Corporate Executive Board, a leading research and advisory-services company focused on driving corporate performance

Market Cap: \$1 billion

Listed companies can take advantage of exclusive benefits now available through a strategic partnership between **THE CORPORATE EXECUTIVE BOARD CO.** (EXBD), or CEB, and **NYSE EURONEXT** (NYSE). Among them is NYSE Market Valuation Diagnostic, a sophisticated analytical tool for pinpointing opportunities to create shareholder value that draws on CEB’s proprietary data and insights on corporate performance and investor perspectives. The NYSE is also broadening its Digital Exchange Webinar series to include CEB content and will include CEB leadership presentations in its global CFO and IR roundtables and networking events. “This alliance will help companies drive corporate performance by arming them with actionable insights and analysis,” says CEB Chairman and CEO Thomas L. Monahan III.

Scott Bohannon, CEB’s general manager of the Finance and Strategy Practice, explains how the company serves its 4,800 members: “We create communities of senior executives, work on the challenges they have in common and devote our resources to finding answers to those challenges within our global network. Our research-based insights enable peers to learn from one another. We are excited about our work with the NYSE because it, too, offers an exceptional network of leading executives, both of companies we serve and of those we hope to serve.” Companies are encouraged to contact their NYSE Euronext client service manager to learn more. — *Jeanne Cotroneo Darrow*



CORPORATE ID
[NAME THIS COMPANY]

- This company will celebrate its 50th anniversary in 2011 by overhauling a main attraction at its Texas headquarters.
- **➤ Pink Things, a popular creamy, cherry-flavored ice product, has been served by the company for nearly 50 years.**
- One of this company’s products is 456 feet high and accelerates up to 128 mph.
- Passengers travel 25 million miles per year on this company’s thrill rides.

ALL CLUES PROVIDED BY THE COMPANY. SEE ANSWER AT NYSEMAGAZINE.COM/CORPORATEID.

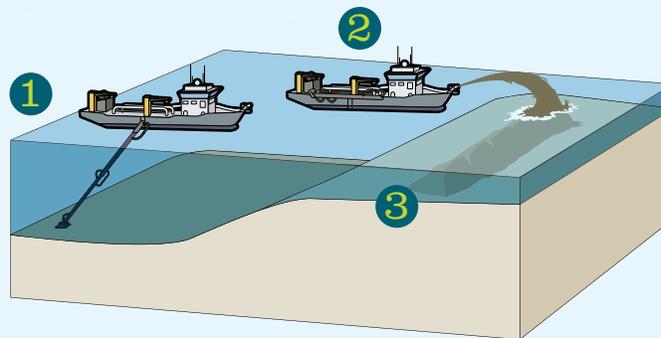
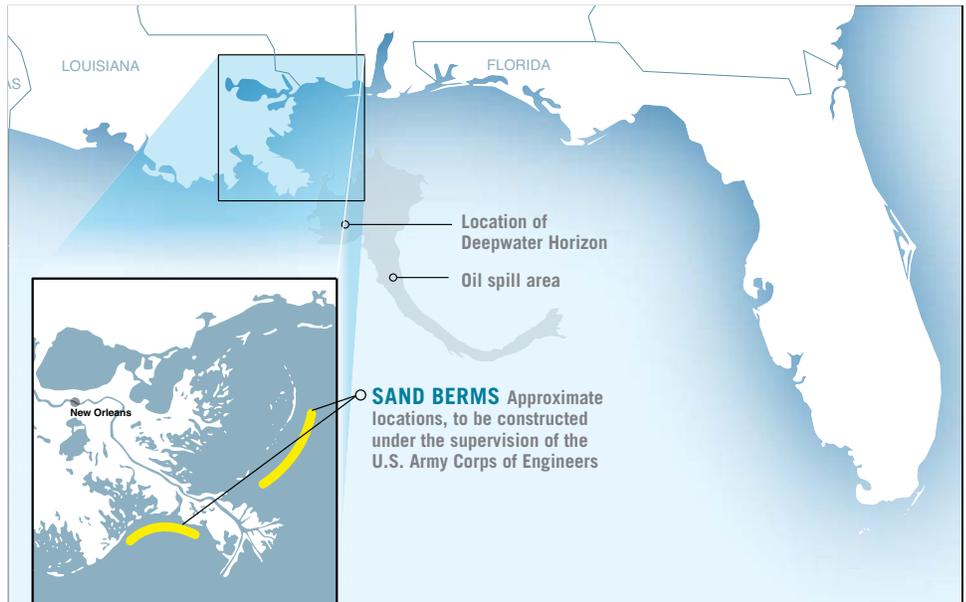
IR Gets Social

Company: GOL Linhas Aéreas Inteligentes, a Brazilian low-fare airline

Market Cap: \$4 billion

To better share information with its investor community globally, **GOL LINHAS AÉREAS INTELIGENTES SA** (GOL) has tapped social media — and earned an award for doing so. What began as a successful Twitter account that reached 1,500 people grew this past spring into a fully integrated investor relations Website that taps all of GOL's social-media channels. For revamping its communication channels and integrating the multiple social-media platforms, GOL won *IR* magazine's "Most Progress in Investor Relations" award.

"The site simultaneously posts news on Facebook, LinkedIn, Seeking Alpha and Twitter, allowing us to have direct contact with investors through any platform they choose," says Leonardo Pereira, GOL vice president and CFO. Pereira notes that while the implementation was easy, choosing the platforms was harder. "We decided not to have an IR blog, for example, because we felt that wasn't the best way to connect with our investors," he says. "Our focus was how to reach more people in a friendlier, more personal manner, so we chose platforms that allow direct contact with the community. Brazil is such a large country, it's important to develop relationships with investors across a number of channels." — *Bridget McMahan*



Here's how the *Stuyvesant* helps build sand berms.

- 1 The hopper dredges sand in deep water using a suction pipe.
- 2 Next, the *Stuyvesant* takes the sand to its collection point.
- 3 To build the protective berm, the sand is temporarily stored in more shallow water. Boskalis says that U.S. authorities oversee the full construction of the berms.

Relief in the Water

Company: Royal Boskalis Westminster, a Netherlands-based maritime services company

Market Cap: €3.1 billion (US\$4.1 billion)

The Deepwater Horizon accident in April that left oil spewing into the Gulf of Mexico created an immediate need to protect the delicate marshes of Louisiana. To assist in the construction of sand berms, **ROYAL BOSKALIS WESTMINSTER NV** (NYSE Euronext: BOKA) deployed its dredger *Stuyvesant*, the first U.S. ship of its type to be deployed on this project. "The vessel had been doing maintenance work

on the Mississippi River, and we offered our expertise and services following the oil spill," says Boskalis CEO Peter Berdowski. The company reports that in the first month and a half of service, the *Stuyvesant* delivered about 900,000 cubic yards of sand to the area. Following the successful closing of the oil well this summer, the vessel continued to be active on the project. — *Bridget McMahan*

See how other companies are helping out in the Gulf at nysemagazine.com/gulfhelf.

After the Quake

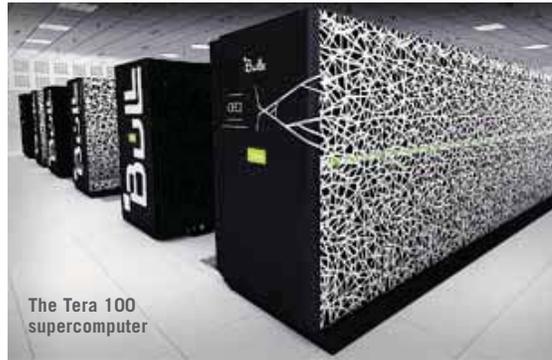
Company: ARCADIS, a Netherlands-based infrastructure, environment and buildings services company

Market Cap: €1.1 billion (US\$1.5 billion)

On the streets of Haiti, employees of **ARCADIS NV** (NYSE Euronext: ARCAD) and UN-HABITAT are sharing knowledge in urban planning, sanitation and flood management in the rebuilding process after this year's earthquake. The effort is part of a three-year partnership between ARCADIS and UN-HABITAT, the United Nations agency for housing and urban development, to bring ARCADIS' resources and infrastructure expertise pro bono to some of the most challenged cities in the world.

At the end of August, ARCADIS says, it sent a team of volunteers to visit Haiti with UN-HABITAT. During the trip, the team defined projects that would support UN-HABITAT in the sustainable development of housing and infrastructure and used Twitter to share updates of the group's progress. Flood management as well as destroyed roads and bridges are some of the main challenges in rural Haiti, according to the company.

Harry Noy, CEO of ARCADIS, was at the World Urban Forum in March to kick off the partnership. "Our skill set matches the needs of UN-HABITAT," he says, "allowing us to offer exactly the type of expertise and experience it needs." — *Shanene Pinder*



The Tera 100 supercomputer

Super Power

Company: LSI, a Milpitas, Calif.-based semiconductor and storage systems company

Market Cap: \$2.9 billion

3.9
BILLION EUROS
(US\$5.1 BILLION):
THE FRENCH
ATOMIC ENERGY
COMMISSION'S
REPORTED 2009
BUDGET, WHICH
COMES FROM THE
GOVERNMENT, THE
EU AND PARTNER
COMPANIES



As the French Atomic Energy Commission, or CEA, began searching for data storage technology for the Tera 100, one of the most powerful supercomputers ever designed in Europe, reliability and performance were top priorities. Why? Because the Tera 100 will be used for the CEA's nuclear weapons simulation program, which is designed to guarantee the reliability of France's nuclear weapons. The CEA's military applications division turned to **LSI CORP.** (LSI), which has expertise in deploying high-performance storage in mission-critical applications such as oil and gas exploration, defense and biosciences. For CEA, LSI worked with high-performance computing specialist **BULL SA** (NYSE Euronext: BULL).

"A project on the scale of Tera 100 requires significant planning, engineering and validation to ensure the full system installation performs to expectations," says Phil Bullinger, executive vice president and general manager for the Engenio Storage Group at LSI. "High-performance storage coupled with supercomputers allows scientists to tackle the world's most challenging problems." — *Chris Warren*

New Mobile Markets

Company: Nokia, a telecommunications company and mobile device manufacturer based in Finland

Market Cap: \$37 billion

Dattarey Bhonge, a 27-year-old farmer in India, profits from the changing market price of the vegetables he produces. Using information delivered to him daily via **NOKIA CORP.**'s (NOK) SMS-based Ovi Life Tools service, he can now determine the best market to bring his produce to and thereby maximize his income.

Nokia says it designed Ovi Life Tools especially for people in emerging markets so they can receive localized information on health care, agriculture and other topics on their mobile devices. The company says it isn't just targeting farmers, but rather the hundreds of millions of Chinese, Indonesians and Indians living in rural areas where access to potentially life-improving information is unavailable. Nokia says it has made available two mobile phone models specifically designed for rural China, one of which has a built-in flashlight and a dust-resistant keypad.

According to Nokia, Bhonge recently discovered that he could get 200 rupees (US\$4.33) more per quintal (220 pounds) of onions by selling them outside his own town of Barshi in the city of Solapur. He used the increased profit to help buy additional farm equipment. — *Chris Warren*



ON THE WEB >> To read responses from the CEOs of **FEDERATED INVESTORS INC.** (FII), **HERBALIFE LTD.** (HLF) and **ROCKWELL AUTOMATION INC.** (ROK), visit nysemagazine.com/cashpositionextra.



CASH GETS A BOOST

Q: Tell us about your company's cash position. How do you expect to allocate cash in the coming year?



RICHARD ANDERSON
CEO, DELTA AIR LINES INC. (DAL)

THE COMPANY serves more than 160 million customers each year on flights between 70 countries on six continents.

MARKET CAP \$9.4 billion*

“ DELTA HAS BEEN ABLE TO IMPROVE its cash position as a result of strong cash generation combined with our limited capital investment needs. In the first six months of 2010, Delta generated \$1.4 billion in free cash flow, a solid sign that our business is healthy. We are investing some of this cash back into our business to improve our product and facilities and to increase the efficiency of our fleet. Our most important priority for cash is to pay down debt, and we're targeting reducing our adjusted net debt by \$7 billion by the end of 2012. ”



MARTIN FRANKLIN
CHAIRMAN AND CEO, JARDEN CORP. (JAH)

THE COMPANY name combines the heritage of the Ball “Jar” with the concept of products being used in the home (“den”).

MARKET CAP \$2.7 billion

“ CASH IS THE FUEL that powers Jarden's strategic growth engine. In 2009 we positioned our balance sheet to support our growth strategies. We generated a free-cash-flow yield of 20 percent, allowing us to continue to make the brand equity and new product development investments that lead to an increased proportion of sales contribution from new products and increased market share at retail. We also made our first strategic acquisition in more than two years, increasing our exposure to attractive categories. We believe these actions will be a source of solid growth in the future. ”



JEFFREY QUINN
CHAIRMAN, PRESIDENT AND CEO, SOLUTIA INC. (SOA)

THE COMPANY is a market-leading performance materials and specialty chemicals company.

MARKET CAP \$1.9 billion

“ OUR CASH POSITION IN 2010 is a result of strong earnings from increased demand in our end markets and disciplined management of our balance sheet. We have maintained this cash position to bolster liquidity in what continues to be an uncertain global economic environment. While recognizing the importance of maintaining a strong balance sheet, we will prudently invest in strategic growth opportunities at the same time. In the coming year, we plan to use our excess cash to fund high-returning internal and external growth projects, as well as to decrease debt. ”



MARK THOMPSON
PRESIDENT AND CEO, FAIRCHILD SEMICONDUCTOR INTERNATIONAL CORP. (FCS)

THE COMPANY reduced its water usage by more than 53 million gallons from 2000 through 2007.

MARKET CAP \$1.1 billion

“ IN 2010, FAIRCHILD IS ON TRACK to exceed the record free cash flow we generated in 2009. We improved cash flow through sales and margin growth that accelerated earnings, as well as disciplined asset management and capital spending. These are important elements in effectively managing our business, regardless of the economic environment. Our first priority for our strong cash flow is to invest in our business to support rapidly growing markets, including wireless convergence and greater energy efficiency in consumer and industrial electronics. ”

THE CEO REPORT

>> According to the sixth annual NYSE Euronext CEO Report, conducted in 2010, 73 percent of CEOs say that, as a performance measure, free cash flow is more important to shareholders than it was three years ago, and 71 percent of CEOs say that cash flow from operations is more important. Visit nysemagazine.com/ceo-report for the full **NYSE EURONEXT CEO REPORT**.

*All market caps as of Sept. 20, 2010

» To read about Streit's special connection to Green Dot's first customer, visit nysemagazine.com/greendotextra.

ON THE
WEB

"WE'VE HAD PHENOMENAL GROWTH. IT'S HARD TO KNOW IF WE'VE BEEN SUCCESSFUL BECAUSE OF OR IN SPITE OF THE ECONOMY."

BIO FACTS

AGE 48

CEO SINCE 1999

PREVIOUS AFFILIATION Vice president of programming at radio broadcasting group AMFM Inc.**ALL IN THE FAMILY** A single dad of six children: two sons and four daughters ranging in age from 17 to 23**U.S. PRESIDENT HE ADMIRES MOST** Abraham Lincoln

SEEING GREEN

Green Dot CEO Steven Streit continues to grow his company by giving its customers what they want — no credit.

BY JENNIFER GILL

STEVEN STREIT started **GREEN DOT CORP.** (GDOT) in 1999 at a desk that he and his son built in their San Marino, Calif. home. Eleven years later, the company, based in Monrovia, Calif., has 300 employees and says it is the leading provider of reloadable prepaid debit cards at more than 50,000 U.S. retail stores, including **CVS CAREMARK CORP.** (CVS), **WALGREEN CO.** (WAG) and **WAL-MART STORES INC.** (WMT). Green Dot says revenues — derived from card fees, cash transfer fees and interchange fees — are up 48 percent, to \$93 million, from the second quarter of 2009. It has 3.2 million active cards in circulation, a 60 percent increase from the same period last year. In July the company went public.

» What was your inspiration for the Green Dot concept?

I had been in the radio business for nearly 20 years when I left in 1999, shortly before the company I worked for was to be acquired. I didn't know what to do next. A friend was working for a company with a Website for young people. It was attracting visitors, but nobody was buying anything. When I asked why, I was told that young people didn't have credit cards. I was inspired to invent a [prepaid] card that young people could use instead of borrowing their parent's card to shop online. The i-GEN, for "Internet Generation," for **MASTERCARD INC.** (MA), was born.

In 2001 we did a pilot test with **RITE AID CORP.** (RAD) and discovered that everyone was buying our cards except kids, which wasn't what we had expected. We talked to customers about why they bought our cards, and they told us that they didn't have a bank account or couldn't get a credit card for one reason or another. The i-GEN was a substitute for a bank account or a credit card. Armed

with this new insight, we quickly changed our packaging to target adults instead of kids, and we went national with Rite Aid in 2002, followed by CVS, Walgreens and many others.

How has the economic downturn affected your business?

We've had phenomenal growth. It's hard to know if we've been successful because of or in spite of the economy. What is certain is that bank fees have climbed, especially punitive ones such as overdraft fees that seem designed to help consumers fail. Dissatisfaction with traditional branch banks has helped build our market. We have no overdraft or penalty fees and no minimum balance requirement.

What else is fueling the growth in prepaid debit cards?

Three years ago, having a credit card was a badge of honor. Now credit has become a bad word because people tie the economic collapse to overleverage, on both corporate and personal levels. People are smarter about

how they budget and spend their money. That's helped fuel the consumption of products that are cash-based and keep you out of debt.

Green Dot has announced plans to acquire a bank. Why?

As we grow, owning a bank will let us develop new products and services more quickly. Today half of our customers have accounts at traditional retail banks. We believe that our distribution method, combined with our fee structure, can offer consumers a better value than a traditional bank account.

What does the government need to do to stimulate entrepreneurship?

America is still a country where, if you work hard, you can achieve more than you could anywhere else in the world. America is still a place for entrepreneurs. Of course, there are times when I feel like government could do more to provide an incentive to stimulate entrepreneurship and encourage the expansion of small business — two of the greatest job creators. After all, this country was a startup, led by entrepreneurs who gathered in Philadelphia to launch a new venture called the United States of America.

What has been your most satisfying moment in business?

As someone who started a company in his bedroom with his own money, a hugely proud moment for me was ringing The Opening Bell® at the NYSE, where so many great entrepreneurs have stood. But I'm most proud when a Green Dot customer tells me how much he or she enjoys our product and how a Green Dot card saved hundreds of dollars a year in bank fees. That makes me feel great. ■



BANK SHOT Walt Bettinger
at Charles Schwab's San
Francisco headquarters

ON THE
WEB

To read Bettinger's take on the financial reform bill, visit nysemagazine.com/schwabreform.

1^{the} long view

BY CHRIS WARREN
PHOTOGRAPH BY
JONATHAN SPRAGUE

Charles Schwab Corp. **CEO Walt Bettinger** maintains the spirit of the company's founder by putting customer loyalty ahead of short-term savings.

WALTER "WALT" BETTINGER, president and CEO of **THE CHARLES SCHWAB CORP.** (SCHW), occupies a long, narrow office that offers stunning views of San Francisco Bay. On his desk sits a plaque that reads, "Riches are what money cannot purchase and death cannot take away." Bettinger says the sign reminds him not only of his personal values but also of the values ingrained in Schwab's business approach and personified by company founder Charles "Chuck" Schwab, who is currently chairman of the board. "What Chuck started 35 years ago," Bettinger says, "was different

in how it served clients.” Bettinger recalls the day in 1975 when the deregulation of sales commissions took effect. “A lot of folks lowered commissions for institutions and raised them for the individual investor. Chuck lowered them for the individual investor.” ¶ Earlier this year, Bettinger, 49, who has been at the helm of Schwab since October 2008, made a similar move. In the past, he says, the company — which

provides investment services to individuals, financial advisers and institutions in addition to offering banking and lending — had tiered pricing for commissions earned in Web equity trades. For customers who had more than \$1 million in their accounts or traded more than 120 times per year, the commission was \$8.95, and for everyone else it started at \$12.95. Now Schwab charges everybody a flat rate of \$8.95.

How has the change affected business? Bettinger says that within two or three months, a metric known as price-value, which essentially measures whether people feel they are getting a good value, significantly improved. “Price-value, which had always been the No. 1 reason people were Schwab detractors,” he says proudly, “is now a reason people are promoters.”

“Promoters” and “detractors” are two of the most popular words in Bettinger’s vocabulary. They are related to the one metric he perhaps cares most about: the company’s so-called client promoter score. Bettinger says that this measurement of customer satisfaction is based on a concept known as the Net Promoter Score, which was developed and unveiled by Bain & Co. consultant Frederick F. Reichheld in the 2003 *Harvard Business Review* article “The One Number You Need to Grow.” The concept is widely

used in the business world, by such companies as **AMERICAN EXPRESS CO.** (AXP) and **GENERAL ELECTRIC CO.** (GE).

Bettinger says that Schwab’s score (*see chart on page 16 for how it is determined*) was derived last year from 15 million live phone conversations and 250 million Web interactions — the equivalent of polling more than seven out of every 10 people in the United States — plus millions of customer visits to Schwab branches around the nation. The company says that it conducts customer surveys every day and measures its promoter score each month.

When Schwab first started measuring client promoter scores in the summer of 2004, the company says, results were around negative 35 percent, meaning that 20 percent of clients were promoters of Schwab and 55 percent were detractors. Today, Schwab’s score is roughly 35 percent, a turnaround that Reichheld has called “one of the biggest in the history of American business.”

Examples abound of the ways client promoter scores are used to make high-level decisions and launch new initiatives at the company, says Ben Brigeman, an executive vice president who heads Schwab’s Investor Services division, which serves individual investors. For instance, he points to an initiative, launched this past April, in which a team of employees in Schwab’s call centers reaches out to clients to see if they need assistance. “We all know

in 2009, with the market meltdown, how a number of clients were essentially paralyzed. We heard that clients really needed additional help and guidance,” says Brigeman, noting that Schwab employees made 50,000 phone calls in the first two months of the effort. “We reach out to them and say things like, ‘I see that you have an IRA account and you are sitting on cash. How can I help you?’ Clients are usually thrilled that someone reached out to them, and it has a positive impact on the promoter score.”

CUSTOMER-FOCUSED DECISIONS

It was in 2004 when the company also formulated an all-encompassing positioning strategy it calls “through clients’ eyes.” “It means that whenever we are faced with a decision, a set of alternatives, we try to look at how it’s going to be interpreted through the eyes of the client,” says the CEO. Having this guiding philosophy for all of the decisions made at Schwab has been especially helpful during the past three years of economic turmoil, he adds.

Bettinger, who considers mid-2007 to have been the start of the economic crisis, says that Schwab has since seen an inflow of roughly \$300 billion in net new assets, including more than \$87 billion in 2009. This amount, he says, is more than the combined net new assets of all of Schwab’s publicly traded brokerage competitors during the same period. Additionally, the company says, its total number of brokerage accounts has grown steadily, to 7.7 million in 2009 from 6.7 million in 2006 — a measure it believes reflects client commitment to Schwab.

just the facts

HEADQUARTERS
San Francisco

2009 SALES
\$4.2 billion

MARKET CAP
\$16.6 billion*

EMPLOYEES
12,500

LISTED SINCE
March 5, 2010
(previously listed from
September 1987 through
December 2005)

*Market cap as of Sept. 20, 2010

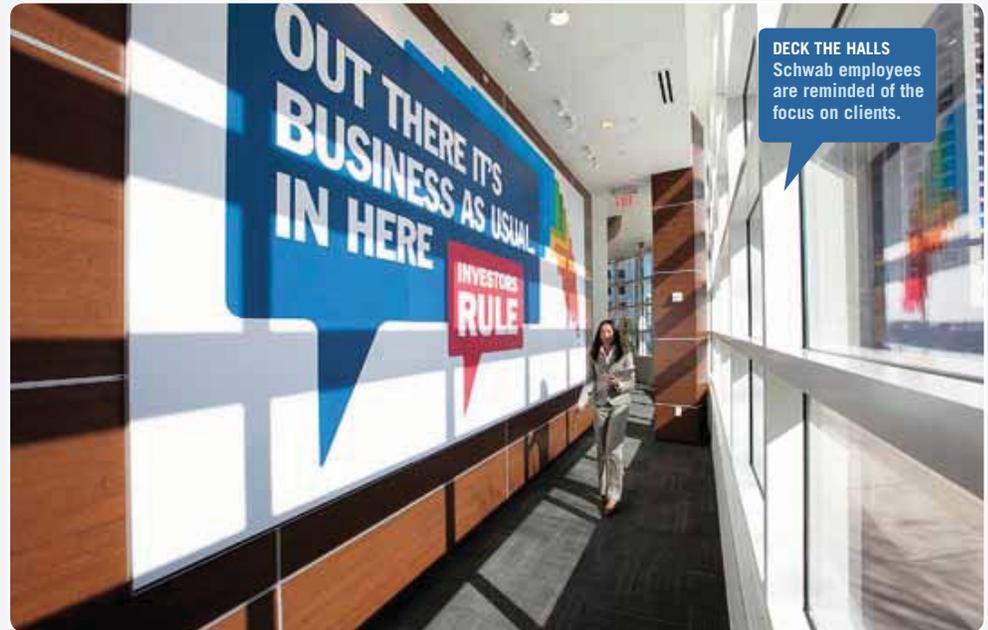
Meanwhile, despite a very challenging market environment in 2009, Schwab reported a pre-tax profit margin of 30.4 percent. “I think that the strategy is validated by the results in terms of organic growth,” says Bettinger.

Still, the company’s financial results, the CEO stresses, have suffered over the same time period, largely because of overall market conditions but also because of historically low interest rates. “That environment won’t stay forever,” he says, “and then the pent-up impact of new clients and new assets we’ve added will be reflected in revenue and profits.” As of May 31, Schwab had a reported 7.9 million client brokerage accounts, 1.5 million corporate retirement plan participants, 794,000 bank accounts and \$1.4 trillion in client assets. In 2009 annual revenues were a reported \$4.4 billion, down 18.5 percent from \$5.4 billion in 2008, which was a slight decrease from 2007, when Schwab reported \$5.6 billion in revenues.

On March 5 of this year, Schwab came back to the New York Stock Exchange — where the company originally listed in 1987 — after a six-year stint on NASDAQ. “The NYSE is the listing home to so many household names in financial services, and having Schwab listed there places us in a natural comparative set,” says Bettinger. “We also believe the NYSE shares our commitment to investor advocacy and innovation.”

“IT’S NOT ABOUT ME”

A summa cum laude graduate of Ohio University, Bettinger has an easygoing disposition, yet an entrepreneur lives within him. In 1983, at the age of 22, he founded The Hampton Co., an Ohio-based firm that provided retirement plan services to corporations



and their employees. He ran it until it was acquired by Schwab in 1995.

At Hampton, Bettinger developed leadership skills on the job. About five years ago, he says, he had an experience that illustrates his approach to managing people. At the time, Bettinger was head of Schwab’s retail business, and he was part of an executive team developing a series of guiding principles, such as “Every client interaction impacts the company’s future for the better or the worse.” In the course of developing the principles, Bettinger says, a consultant questioned what he was doing. “He said to me, ‘All these years and all this work and you made it to this senior level, and now you want to put out these principles that will cost you so much power and control? Employees will be able to read these and call you on things,’” Bettinger

recalls. “And I said, ‘That is the whole point. It’s not about me; it’s not about power or control. It’s about empowering everyone else. That is what leadership is about.’”

Bettinger worked closely with company founder and then-CEO Chuck Schwab from the time Hampton was acquired. Initially Bettinger was charged with running and expanding Schwab’s corporate services business, which he did until he became head of the retail business, then president and COO. The company says that Chuck Schwab groomed Bettinger for the CEO role by bringing him into business discussions and decisions so that the protégé could understand his mentor’s vision, values, way of thinking and system of putting those into action. The two collaborated in making decisions until 2008, when Bettinger succeeded Schwab as

Chuck Schwab groomed Bettinger for the CEO role by bringing him into business discussions and decisions.

CEO and began making them on his own, with Schwab always available for guidance and consultation.

Bettinger says it's important that he and the other executives be held accountable for their actions and create an environment where all Schwab employees are accountable. According to Jim McCool, executive vice president and head of Schwab's second client enterprise, Institutional Services, which serves independent registered investment advisers, employers and other intermediaries, a belief in accountability is a trait that Bettinger has had for decades. So, too, says McCool, is Bettinger's ability to adapt and always ask hard questions, especially of himself. McCool, who worked for Bettinger at The Hampton Co., recalls how Bettinger ignored the plaudits Hampton was receiving in the early 1990s because he saw Hampton losing a lot of business to a competitor. "He said, 'If we don't figure out how to beat this product, we'll be out of this business in a year

or two,'" McCool says. "Then he literally rebuilt the entire business model and ultimately achieved a breakthrough in how 401(k) record-keeping was done."

McCool says Bettinger continues to demonstrate the ability to adapt and to ask tough questions of himself and others. "He's demanding," McCool observes, "because he knows the business and is always learning and studying. If you go to him with a concept or an idea, you'd better be prepared and have done your homework, because you can be certain he has done his and will ask tough, challenging questions."

Bettinger also offers clear leadership on the importance of making decisions for the long haul, according to Brigeman. He says that managers can often fall into the trap of trying to meet certain revenue and expense targets no matter what. "Walt is very consistent in saying, 'Look at the big picture. Make sure you don't make cuts that will be detrimental to the services you are supplying your clients. Look at the long run and loyalty will trump short-term expense savings.'"

For Bettinger, just as important as providing accountable leadership at Schwab is making sure the investment world as a whole knows that the company is accountable to it as well. In this the CEO believes that Schwab has earned a level of confidence among both advisers and individual investors that puts the company in a good position for the future. "I think people are looking for help, but at the same time they are looking for trusted help," he says. "And there is a difference."

INVESTMENT INNOVATIONS

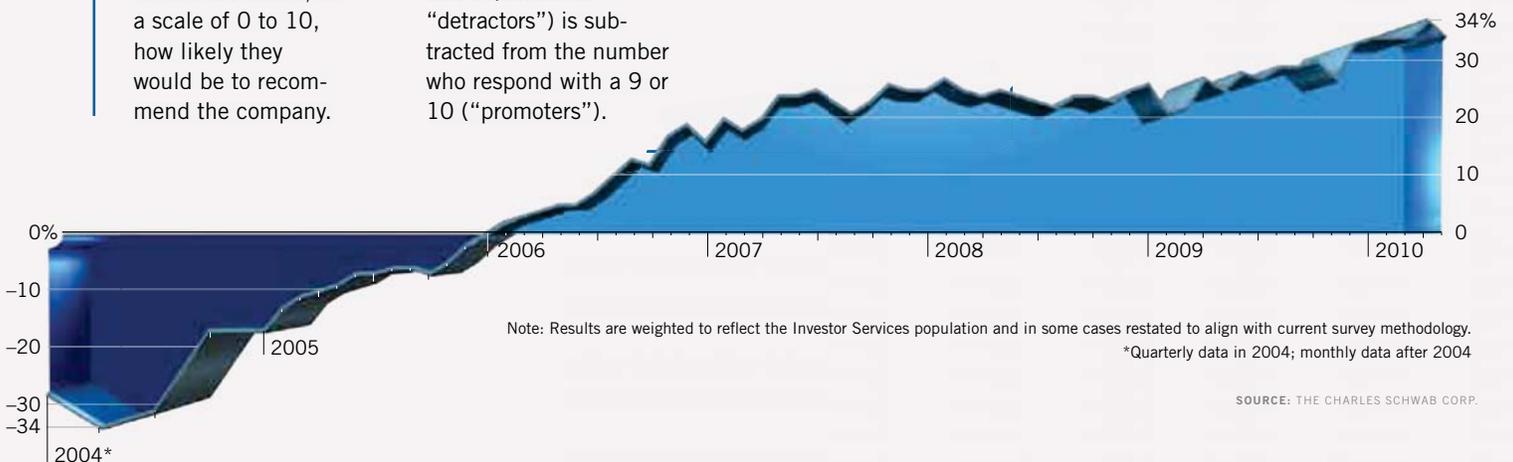
Having a culture and a philosophy that ensure Schwab is tuned in to its clients helps the company stay focused and consistent, even when it comes to innovation, says Bettinger. "When we look at the past three years, one of the lessons [learned] on Wall Street is through the comparison of how much innovation was happening on behalf of the client versus on behalf of the firms' P&Ls," he says. "At Schwab we believe that when you innovate on behalf of the client, you will benefit in your P&L, though it just may take more time."

Recently, says Bettinger, Schwab has focused resources and attention on exchange-traded funds, or ETFs (funds that trade like stock on an exchange and hold a portfolio of securities that usually tracks an index). In fact, the company likes to refer to itself as "ETF HQ," in part, it says, because Schwab clients

What's the Score?

Client promoter score (CPS) measures customer satisfaction and is often CEO Walt Bettinger's first consideration when setting strategy.

- To determine Schwab's CPS, customers are asked, on a scale of 0 to 10, how likely they would be to recommend the company.
- The number of people who answer between 0 and 6 (known as "detractors") is subtracted from the number who respond with a 9 or 10 ("promoters").
- A score of 0 percent indicates the same number of detractors as promoters.
- The chart below shows steady increase in Schwab's CPS during the past six years.



SOURCE: THE CHARLES SCHWAB CORP.

Recently the company has focused resources and attention on exchange-traded funds. In fact, it likes to refer to itself as “ETF HQ.”

make up almost a quarter of all daily U.S. retail ETF trading volume.

The company reports that total client assets in ETFs as of July 30 — both proprietary and third-party — are \$88 billion, an increase of 38 percent year over year. Of that total, \$1.4 billion is in Schwab-managed ETFs, which were only launched in November 2009.

Schwab's ETF innovations have been geared toward making ETFs more accessible for its clients. For example, Schwab says it has helped investors interested in dollar-cost averaging and diversification. Historically, Bettinger says, it was very costly for people to invest in ETFs because one group of companies manufactured ETFs while another group distributed them. “It was very hard to set up a portfolio of six or eight or 10 ETFs and dollar-cost average,” he says, “because you would pay a commission every time for every purchase on ETFs.” Bettinger says that Schwab's innovation was to become both a distributor and a manufacturer. Because Schwab had decades of experience in managing index funds, Bettinger says, it was natural for Schwab to take on the management of ETFs.

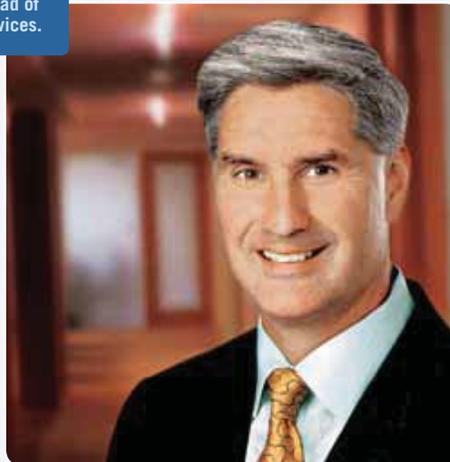
Just as important, says Bettinger, was Schwab's decision to make ETF expenses low and charge no commissions when a Schwab-issued ETF is traded online within a Schwab account. “We opened up the world of ETF investing to the masses, in some ways not that different from what Chuck did in 1975 when he opened up equity investing to the masses,” says Bettinger. The company already has 11 proprietary ETF funds, both domestic and international, as well as sev-

eral managed ETF portfolios that include Schwab and third-party funds. All 11 of Schwab's proprietary ETFs, including the **SCHWAB U.S. BROAD MARKET ETF** (NYSE Arca: SCHB), **SCHWAB U.S. LARGE-CAP GROWTH ETF** (NYSE Arca: SCHG) and **SCHWAB**

lower ETF operating expense ratios in their respective categories than Schwab ETFs.

Beyond investment products, the company is developing innovative technology to aid individual investors and advisers alike. For individual investors, explains Bettinger,

FOR INDIVIDUALS
Ben Brigeman is
Schwab's head of
Investor Services.



INTERNATIONAL EQUITY ETF (NYSE Arca: SCHF), are listed on NYSE Arca.

Brigeman says Schwab will continue to build its ETF offerings as well as reduce expenses. In fact, in mid-June, Charles Schwab Investment Management Inc., the subsidiary that manages Schwab's ETFs and other funds, announced that it had reduced fees on six proprietary Schwab ETFs. But that's not all, says Brigeman. “We are taking the further step to reduce the operating expense ratios in those funds so that they are the lowest in the industry,” he says. “We want to make sure those products are available to clients without any barrier.” In fact, says the company, besides commission-free trading in Schwab accounts, nobody offers



FOR ADVISERS Jim
McCool is Schwab's
head of Institutional
Services.

Schwab understands how important technology is to the overall experience and so is redesigning StreetSmart Pro®, its online trading platform for active traders. “We believe it will take the trading experience to the next level,” says Bettinger, adding that it will launch in early 2011. New mobile-banking and brokerage capabilities will launch in coming months, he notes. As for the future, Bettinger believes that the greatest untapped opportunity remains finding ways to provide investors — all investors, regardless of the size of their accounts — with the help and advice they need to reach their investment goals. “High-quality, scalable advice,” Bettinger says. “That's the goal.”

“We’re facing a new economic reality, and now it’s the first inning of a new game.”

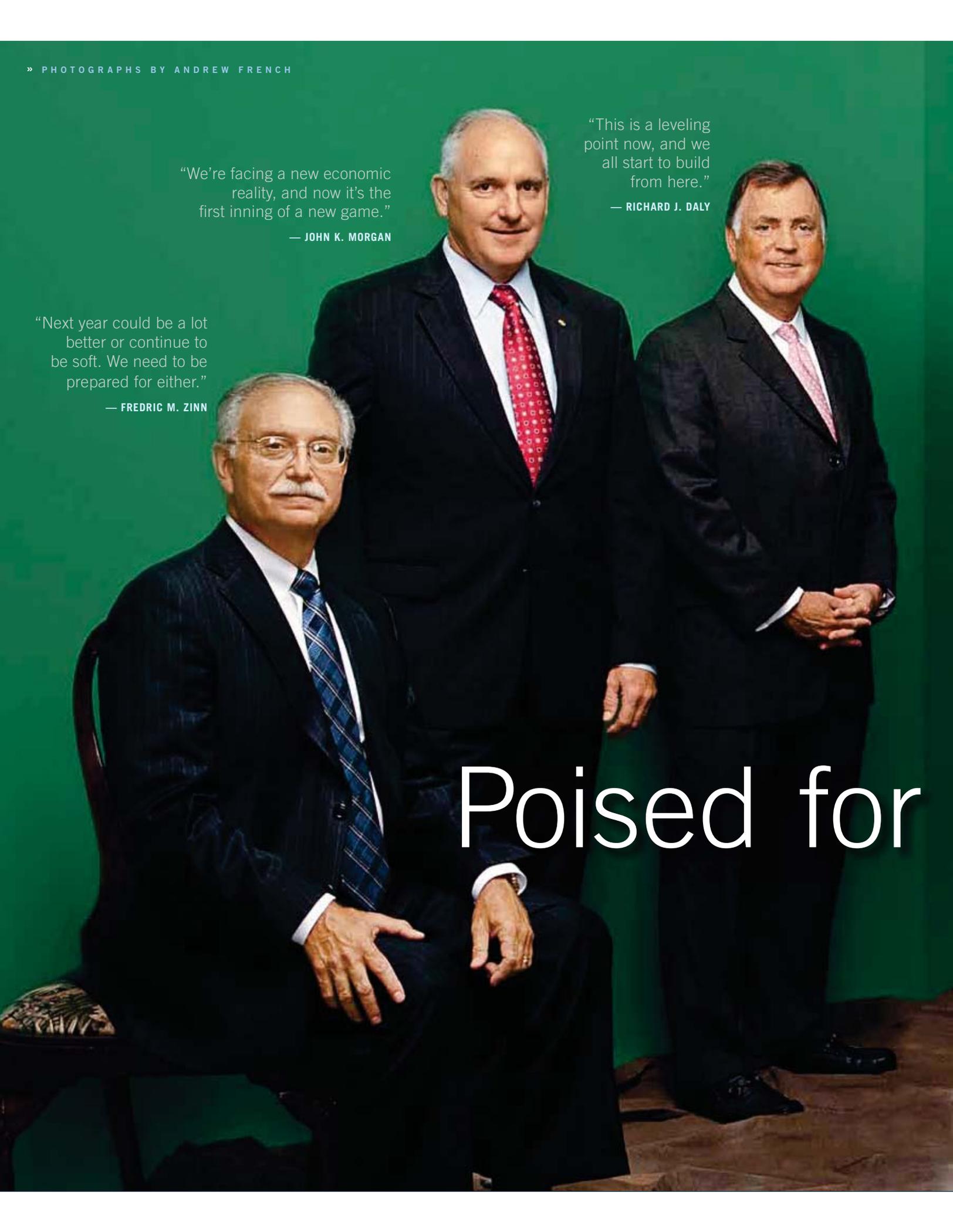
— JOHN K. MORGAN

“This is a leveling point now, and we all start to build from here.”

— RICHARD J. DALY

“Next year could be a lot better or continue to be soft. We need to be prepared for either.”

— FREDRIC M. ZINN



Poised for

A photograph of three men in dark pinstriped suits against a solid green background. One man is standing on the left, another is sitting in the center, and a third is standing on the right. They are all looking towards the camera.

“You have to position yourself to be able to deliver the innovations your customers and investors need.”

— DUNCAN L. NIEDERAUER

“Those who have the kind of business model that can work well in or adapt to a bad economy are going to be fine.”

— JOSEPH R. FICALORA

“Management teams have just had the best two-year training course of their lives.”

— JAMES HOOKE

Progress

Six cautiously optimistic CEOs gather at the NYSE to discuss their strategies for growth — and concerns amid economic uncertainty — in the year ahead.

ON THE WEB

Read more of what these CEOs have to say at nysemagazine.com/roundtableextra.

AS THE RESULTS OF THE SIXTH ANNUAL NYSE Euronext CEO Report show, business leaders believe that a recovery is under way, and companies are repositioning themselves for anticipated growth. In a roundtable discussion held at the New York Stock Exchange this past summer, six CEOs shared insights on how they're navigating the uncertainty to move their companies forward.



THE PARTICIPANTS



JUSTIN FOX
MODERATOR
EDITORIAL DIRECTOR,
HARVARD BUSINESS REVIEW GROUP

RICHARD J. DALY
CEO, BROADRIDGE FINANCIAL SOLUTIONS INC. (BR)

Broadridge, with offices in nine countries, provides technology-based solutions to the financial services industry.

JOSEPH R. FICALORA
CHAIRMAN, PRESIDENT AND CEO, NEW YORK COMMUNITY BANCORP INC. (NYB)

The bank holding company has 276 branch offices — 210 in New York and New Jersey and 66 in Arizona, Florida and Ohio.

JAMES HOOKE
CEO, MACQUARIE INFRASTRUCTURE CO. LLC (MIC)

A diversified group of infrastructure businesses in the U.S., Macquarie operates energy- and aviation-related companies.

JOHN K. MORGAN
CHAIRMAN, PRESIDENT AND CEO, ZEP INC. (ZEP)

Zep produces more than 3,500 sanitation and maintenance products, including detergents, disinfectants and pest-control compounds.

DUNCAN L. NIEDERAUER
CEO, NYSE EURONEXT (NYX)

A leading global operator of financial markets and provider of innovative trading technologies, NYSE Euronext has about 8,000 listed issues and accounts for one-third of the world's equities trading.

FREDRIC M. ZINN
PRESIDENT AND CEO, DREW INDUSTRIES INC. (DW)

Drew produces and markets components for recreational vehicles and manufactured homes.

With signs of a recovery but uncertainty still looming, how's business?

FREDRIC M. ZINN Business is much better than it was, though it's not back to where it was a few years ago. The RV industry, Drew's primary market, is up nearly double from a year and a half ago. The RV industry usually leads into and out of recessions because it is dependent on confidence of consumers who are usually more economically secure than the average consumer. We spent a year and a half retrenching and getting ready for the downturn, and now we're starting to think about more growth opportunities. As people get a little more comfortable about the future and see the light at the end of the economic tunnel, so to speak, they start making purchases they've deferred during the recession.

JOSEPH R. FICALORA During credit-cycle downturns, we actually increase our lending and earnings potential because other lenders leave the market. I believe that all credit cycles are reflective of the preceding cycle. For example, if we had a long, robust, positive credit cycle for close to 15 years, it stands to reason that the following cycle will be difficult. This particular economy is burdened by the reality that over the past decade we saw trillions of dollars of appreciation in the equity and real estate markets. The economy

was growing at record levels year after year. Now we're in the opposite position, where there isn't enough funding for the existing values. As a result, the losses taken going forward will be fewer, but there will be fewer available lenders and, much worse, fewer eligible buyers because the terms are going to change. The adjustment is still in front of us, and the economy will slow for a longer period than people would like. There are still a lot of adjustments to make, and that will take time.

RICHARD J. DALY After the third quarter, I had forecast record sales this year and felt confident about sales going into next year. So sales results are a positive highlight. When an industry is under economic pressure, companies tend to look at the way they do things. As an outsourcer, that has created good sales opportunities for us.

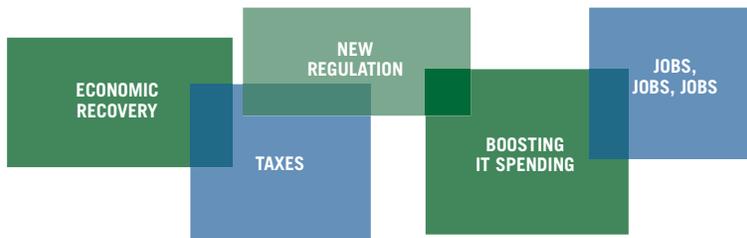
However, even though we support the processing of many different trading activities, the real asset-servicing value comes from retail investors. And retail inflows and investor confidence still haven't quite recovered. Our recurring revenue base, although very solid, is down two points, whereas historically it's generally up.

JAMES HOOKE We have a diversified portfolio of infrastructure businesses, and 2010 is a much better year than 2008 or 2009.



TRENDING TOPICS

The roundtable participants are most concerned about...

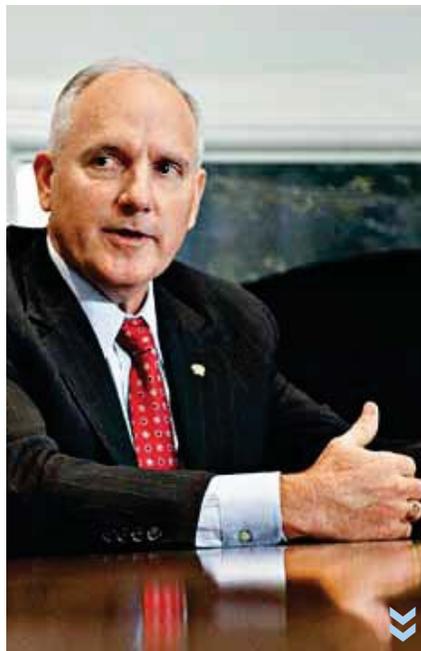


ON THE WEB Video sound bites on each of these topics can be found at nysemagazine.com/roundtablevideo.

The two issues driving our businesses are performance in the industries in which we operate and the availability of credit. I think credit markets are open and operational again, and that is certainly supportive of a recovery. In terms of industry performance, the energy sector was very buoyant and robust throughout the downturn for us. The general aviation sector fell off a cliff, but it has come back nicely. Overall I'd say there is much more light than there is darkness.

JOHN K. MORGAN Our business is about 75 years old, and about 73 of those were years of continuous growth. In the cleaning and maintenance business, we don't experience the highs and lows, since people continue to clean and maintain their equipment. But we did see a pretty significant drop during this recession. For the first time in two years, every one of the market verticals in our significant customer groups is comparing favorably with last year. So we're seeing signs of recovery. We're also seeing that the tough times of the past two years have created a lot

of opportunities for acquisitive growth. The current tax environment — or concern about next year's tax environment — is also creating a great deal of opportunity for acquisitions. We're looking for a lot of things to happen in the next one to three years.



“The tough times of the past two years have created a lot of opportunities for acquisitive growth.”

JOHN K. MORGAN

Is the tax environment affecting anybody else's industries in a big way?

DALY Last year we doubled our dividend, and we felt doing so was a good way to create shareholder value and give our shareholders

“Business leaders have to find a way to celebrate the wins.”

DUNCAN L. NIEDERAUER





“The economy will slow for a longer period than people would like. There is still a lot to adjust, and that will take time.”

JOSEPH R. FICALORA

the return they deserve. If you get into double taxation, does it negate your strategies? It makes you take a step back in terms of existing and future strategies and decide whether they are or are not something shareholders will continue to value as you move forward.

HOOKE In any industry in which you've got private individuals who own businesses and are looking to exit, 2010 looks like it will be a logical year for them to do so. Estate planning in this context looks as though it could create opportunities for growth in certain areas of our businesses.

FICALORA The tax environment affects banking in particular. Companies are going to be sold, not bought, and that will be evident throughout the entire economy. People will be deciding to sell out of their current situation, and that will drive the amount of transaction activity and consolidation.

“We'd like to raise investors' confidence so they come back into the market.”

RICHARD J. DALY



MORGAN We watch that closely because our business is positively correlated with employment. One of the things we're expecting is that the economy will contribute to sustained high levels of unemployment for the next one to two years. As a result, we're expecting a moderate business climate for the next couple of years.

Facing an uncertain outlook, where are you investing or spending money?

ZINN We are starting to make some cautious plans to invest more capital for production capabilities, which had been curtailed over the past year, and for IT. We want to become more efficient while also preparing ourselves for a potential increase in demand. Our market is largely in the U.S., but it's a world economy, so we have to start looking — as all businesses do — at conditions in the global marketplace.

MORGAN Our largest single investment in the coming two years will be in IT, followed closely by innovation. We have been fortunate to drive a lot of efficiency into the business, especially in our manufacturing and logistics over the past two years. Something refreshing we've seen is the appetite from our customers for innovation, which has increased after the past two years.

HOOKE In our bulk liquid storage business, we're deploying a lot of capital and building additional storage tanks to store both imported and domestically produced refined petroleum products and chemical products. The demand for storage continues to soar, and we're seeing great returns. We're also spending on IT in support of sales and marketing, particularly in our airport services business.

DALY We'd like to raise investors' confidence so they come back into the market. For us it's using technology to give them more information more easily with more transparency. There are opportunities to apply social networks and other technologies to create more transparency and level the playing field for investors. (*Look for more on IT spending and innovations in the next issue of nyse magazine.*)

FICALORA We'll lend more during the period in front of us, and we believe we will do well, and we're already beginning to see that. In any economy, some things will work well. Those who have the kind of business model that can work well in or adapt to a bad economy are going to be fine.

“Our market is largely in the U.S., but we have to start looking — as all businesses do — at the global market.”

FREDRIC M. ZINN

What are some challenges you're facing in the changing economy?

DUNCAN L. NIEDERAUER There are opportunities for all of us. You have to position yourself to be able to deliver the innovations your customers and investors need by asking, “What did the environment change? How did it change customers’ viewpoints? And how can we respond?” We’re all seeing opportunity that came out of the crisis because our clients are thinking differently now, but the challenge is getting everyone to agree that it’s time to play offense.

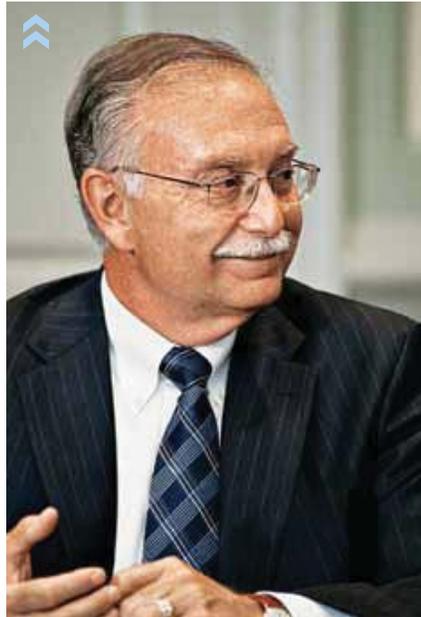
HOOKE The biggest challenge is getting your people to pivot and change their focus. This is especially difficult when it’s midway through the year and the company shifts from cost reduction mode to revenue generation mode.

NIEDERAUER Getting your people to pivot takes more time than you might think. Business leaders have to find a way to celebrate the wins and new business opportunities. Let it filter through the company because everybody wants the good news.

MORGAN It doesn’t take long for that excitement to kick in. Once the company sees one or two wins, it’s a very exciting environment.

What would it take to make you believe that the economy has turned a corner?

MORGAN I think about recovery not in terms of how long it will take to get back to where we were two to four years ago. I sort of think recov-



ery has occurred. We’re seeing some signs of optimism. We’re facing a new economic reality. We’ve adjusted balance sheets and break-even points, and now it’s the first inning of a new game, not the third or fourth inning of the same old game. We’ve started over at a whole new level of GDP, and we have to reset to a new level of world economic activity. We’re looking at how to move forward from here, accepting the new economic reality as our starting point.

ZINN Consumer spending and business spending are what, in a broad sense, drive the economy. In our industry, consumer confidence is a big issue, and what we lack now is confidence in the political system. Once consumers gain confidence and business leaders start spending the assets on their balance sheets, we’ll gain momentum and see more significant improvement. The message here is that we, as business leaders, have to be prepared for almost anything, which is what the



“The biggest challenge is getting your people to pivot and change their focus.”

JAMES HOOKE

past two years have taught us. Next year could be a lot better or continue to be soft. We need to be prepared for either.

DALY I agree with John’s comment that this is a leveling point now, and we all start to build from here. I believe that by accepting where we are and looking for opportunities and investing carefully, we’ll create opportunities and jobs.

HOOKE I’ll let others opine about the health of the economy overall — I can only control my own businesses. But I’m optimistic for a couple of reasons. First, even if the recovery is slow, I don’t believe that any downturn along the way will be as bad as 2008 to 2009. Second, the management team of every business has just had the best two-year training course of its life and should be much more capable of dealing with challenges. With the amount we’ve learned and good management teams, the momentum to move forward is clearly there. ■



MAKING CHANGE

AT DOLLAR GENERAL, CEO RICK DREILING
IS CONQUERING WHAT HE CALLS RETAILING'S
LAST WILD FRONTIER.

» BY SUSAN CAMINITI
» PHOTOGRAPHS BY GREGORY MILLER



ON THE WEB To read how Dollar General achieved double-digit sales growth with a private-label product, visit nysemagazine.com/dgprivate.

ON A BRILLIANTLY SUNNY June afternoon inside the **DOLLAR GENERAL CORP.** (DG) store in Madison, Tenn., a quiet suburban town north-east of Nashville, spacious, brightly lit aisles display neat rows of household products, food, apparel and personal-care items with almost obsessive uniformity. The friendly salespeople at the front of the store are outfitted in crisp yellow polo shirts and black pants, coordinating with the company color scheme. Down one aisle, bottles of bleach are so precisely arranged (eight across, three deep, on three shelves) that the vision would make a drill sergeant smile.

Granted, the Madison store is among the chain's most organized because of its location near company headquarters, but the scene

certainly makes Dollar General Chairman and CEO Richard "Rick" W. Dreiling happy. "How are ya?" he eagerly asks a young saleswoman as he shakes hands and briskly makes his way through the store. He stops to admire a new line of shampoos and conditioners, part of the Pantene brand, owned by **THE PROCTER & GAMBLE CO.** (PG). To customers it's a nice display of shampoo that's been getting plenty of TV advertising lately — and sells for about \$1 less here than it does at some retail drugstore chains. But to Dreiling, 56, it's validation. "We're getting all the national brands when they first launch instead of having to wait months," he says.

It wasn't always this way. When Dreiling, a 40-year retail veteran, was named CEO in January 2008, a typical Dollar General store was crowded and dimly lit, with a bullpen of checkout registers choking the entrance and shelves clogged with duplicate and sometimes discontinued items. Behind the scenes, it wasn't much better. Same-store sales growth — growth in sales of stores open a year or more, an important measure of a retailer's performance — had slowed to 2 percent (from north of 7 percent in fiscal 2001), and profits had plummeted by 60 percent, to \$138 million. "Let's just say this was a jewel of an asset that was being under-managed," he says.

Buyout firm **KKR & CO. LP** (KKR) clearly felt the same way. In July 2007, it acquired Dollar General for approximately \$7.3 billion and

took the company private. Michael Calbert, a KKR partner who oversees the Dollar General investment (the firm, along with **THE GOLDMAN SACHS GROUP INC.** [GS] and others, still owns approximately 80 percent; the remaining shares were sold to the public in an IPO in November 2009), describes the chain as one "that had not been managed effectively for a number of years, but which had a great brand that delivered exceptional value to consumers on the everyday items." In Dreiling, he says, KKR found the "perfect choice" to turn the retailer around.

Back in the 1990s, KKR had an investment in **SAFeway INC.** (SWY), the grocery store chain where Dreiling had been executive vice president earlier in his career. "We've known Rick for 20 years and had followed him closely," says Calbert, who sits on Dollar General's board. "He brought a wealth of operational experience, which the company truly needed, but also a respect for the culture and history of Dollar General."

HUMBLE BEGINNINGS

Cal Turner Sr. and his dad started Dollar General as J.L. Turner and Son Wholesale in Scottsville, Ky., in 1939. Over the years, it evolved into Turner's Department Store and moved to Springfield, Ky. In 1955 the company was renamed Dollar General, and true to its name, it sold no item for more than a dol-



“WE WERE VERY SPECIFIC.
**WE TOLD SUPPLIERS, FOR EXAMPLE, THAT WE WANT THE
DG BRAND COOKIES TO TASTE AS GOOD AS CHIPS AHoy!”**

— **TODD VASOS**, CHIEF MERCHANDISING OFFICER

“THERE’S A CERTAIN ART TO PICKING THE RIGHT LOCATION, BUT IT HAS TO BE BACKED UP WITH ANALYTICAL RIGOR.”

— KATHLEEN GUION, DIVISION PRESIDENT, STORE OPERATIONS AND DEVELOPMENT



lar. By 1968 the buck-only prices were gone and Dollar General had become a public company, ringing up annual sales of \$1 million. In 2000 then-CEO Cal Turner Jr. moved the company to its current headquarters in Goodlettsville, Tenn., outside Nashville.

With more than 9,000 stores spread across 35 states from Vermont down to Florida and as far west as Arizona, Dollar General competes in the retail space known as dollar-store chains. But Dreiling doesn't spend too much time fixated on the category. For one thing, Dollar General says much of the merchandise it sells costs more — up to \$10 or even higher.

Besides, Dreiling knows that he has bigger competition — from drugstore giants to grocery stores and discount retailers. With so many competitors, how does Dollar General stand out? Dreiling believes the winning combination is convenience and cost: An average Dollar General store covers 7,100 square feet, according to the company, compared with the average department store, which spans 100,000 square feet, or the typical 50,000-square-foot grocery store. “You can park, go in quickly to get what you need, and be out,” Dreiling says of Dollar General. “If that doesn't scream convenience, I don't know what does.”

As for the second part of Dreiling's strategy — cost — it's as important as convenience, he says. The average household income for a Dollar General customer, according to the company, is \$45,000 a year. Consistently low prices on the most frequently purchased items (paper goods, household cleaners and laundry detergent are the top sellers) are key to customer loyalty, the chief says. “We have a pricing structure that's built on everyday low prices,” Dreiling explains. “The price of Tide this week is the same as next week. When we talk to our customers in the stores we hear that consistency in pricing is everything to them right now.” Neil Stern, a senior partner at McMillan-Doolittle LLP, a Chicago-based retail consulting firm, describes the Dollar General customer as someone who “has \$25 in her pocket and needs to make ends meet.” Adds Stern: “She needs to know that when she runs in for paper towels or toothpaste, she

can pay less without having to buy a case.”

Indeed, in fiscal 2009 — in the wake of the financial crisis that forced many consumers to trade down — the retailer earned a reported \$339 million, more than triple the prior year, on sales of \$11.8 billion, a corporation-wide 13 percent increase. Same-store sales rose a reported

9.5 percent in 2009 and 9 percent in 2008. By comparison, other dollar-store chains posted 2 percent to 7 percent same-store sales growth in 2008 and 2009, according to Morningstar Inc.

While Dollar General wants to hang on to all of its customers, including the new ones who have traded down, analysts say the core customer is still the key to growth. “Quite frankly, I think Wall Street overestimates the size of the trade-down customer segment for Dollar General,” says Matt Nemer, managing director of equity research, who covers retailing at Wells Fargo Securities LLC, a unit of **WELLS FARGO & CO.** (WFC), in San Francisco. “When the economy gets going again, it's much more important for the company to have its core customer add one more item to her shopping basket than it is to hang on to the new customers who traded down.”

A “WILD FRONTIER”

Dreiling didn't set out to be a merchant. Born in Seattle and raised in Kansas City, Kans., he graduated with a bachelor's degree in industrial relations from Rockhurst University in Missouri and planned on becoming a lawyer. To raise a little cash before law school, he began working as an assistant manager at a

JUST THE FACTS

HEADQUARTERS
Goodlettsville, Tenn.

2009 SALES
\$11.8 billion*

MARKET CAP
\$9.5 billion**

EMPLOYEES
More than 80,000

LISTED SINCE
Nov. 13, 2009

*Fiscal year ends Jan. 31.

**Market cap as of Sept. 20, 2010

local Safeway. “I never made it to law school after that,” he says. After senior posts at Safeway, Vons (a Southern California food and drug division of Safeway) and Longs Drug Stores Corp., he was offered the top spot at Duane Reade Holdings Inc. in 2005 (**WALGREEN CO.** [WAG] acquired Duane Reade in April).

When Dreiling accepted the CEO position at Dollar General, he called deep discounters “the last wild frontier of retailing.” All the rigor and discipline that had been put into mass merchants and department stores during the 1980s and beyond — what they bought, how they used technology to buy those goods and where they located their stores — had never been applied at Dollar General, he says. “When I saw all the things we could do to elevate this company in so many places, taking the job was a no-brainer,” he says.

So like any good merchant, Dreiling began by looking at Dollar General through the customer’s eyes. During his first few weeks on the job, he assembled people from store operations, merchandising and the supply-chain team and gave them a challenge. “I told them to select two or three Dollar General stores to

focus on,” Dreiling recalls. “I said, ‘Take a few days, spend what money you need to, and go and make these stores the best you can.’” The idea was to have the top people from each area work together in a few stores to coordinate on displays, merchandise assortment, how the sales help was scheduled, when and how often trucks delivered goods to the stores, even how well the back storage room was organized. “Once they had everything in place, I could go into these stores and see how things looked and where we needed to make changes,” the chief explains.

But several days later, Dreiling says, the teams came back to him and asked for a few more days to get the work done. Then, much to his dismay, they asked for a few more weeks. “It became very alarming to me that everything that was supposed to be happening in the stores wasn’t — and that these folks didn’t even know it until they were all together,” he says. “It was completely disjointed. Multiply that by 8,000 stores at the time and you can see we had a huge problem in front of us.”

Fixing it required some fast action and some new blood, Dreiling says. Four months after he arrived, the chief had replaced a good number of the company’s top managers; he says that today 60 percent of the company’s vice presidents and above are new to Dollar General. “I think making the changes quickly is just a matter of style,” he explains. “The

more time that goes by, the bigger the propensity to develop friendships with folks who ultimately may not be a good fit for the company. In the short term, it’s easier to be focused on performance, productivity and the work at hand.”

HANDLING MERCHANDISE

One of the top executives Dreiling brought in during his first year was Chief Merchandising Officer Todd Vasos. Dreiling and Vasos had worked together at Longs, and Vasos had risen to chief operating officer there before **CVS CAREMARK CORP.** (CVS) bought the company in late 2008. As Vasos recalls, one of Dreiling’s major goals during his first year was to improve the way Dollar General bought goods for its stores. For decades the company’s buyers essentially bought what vendors wanted to sell them rather than what the company thought its customers wanted. “It’s not a good way to run a business because you’re not taking the customer into the equation,” Vasos says. To get a better handle on merchandise, Dollar General began tracking point-of-purchase information — what items were selling fastest, which sizes and in which stores — as well as gathering consumer data from Nielsen research. When Dollar General’s merchants now meet with national and private-label suppliers, they are armed with robust consumer intelligence that allows them to make smarter purchasing decisions for the chain, Vasos says.

The company’s private-label program is a prime example of this more disciplined approach. When Dreiling joined the company, he says, one of his top priorities was to overhaul the private-label goods sold under the Dollar General brand. (Nemer of Wells Fargo figures the profit margins on private-label merchandise are anywhere from 5 percent to 10 percent higher than on national branded goods.) The problems with Dollar General’s private-label offerings, says Vasos, were poor-quality ingredients in food products and bland packaging. So a few months after Vasos arrived, Dreiling charged him with pulling together a vendor summit to lay out Dollar General’s new operating instructions. “We met with hundreds of suppliers and gave them the tools, the market research, the specs — everything we wanted to have in each category of private-label merchandise,”

**DG
STORES
BY THE
NUMBERS**

9,000

Stores in the U.S.*

600

New stores planned
by end of year

35

States with DG
stores

7,100

Average square
footage

1

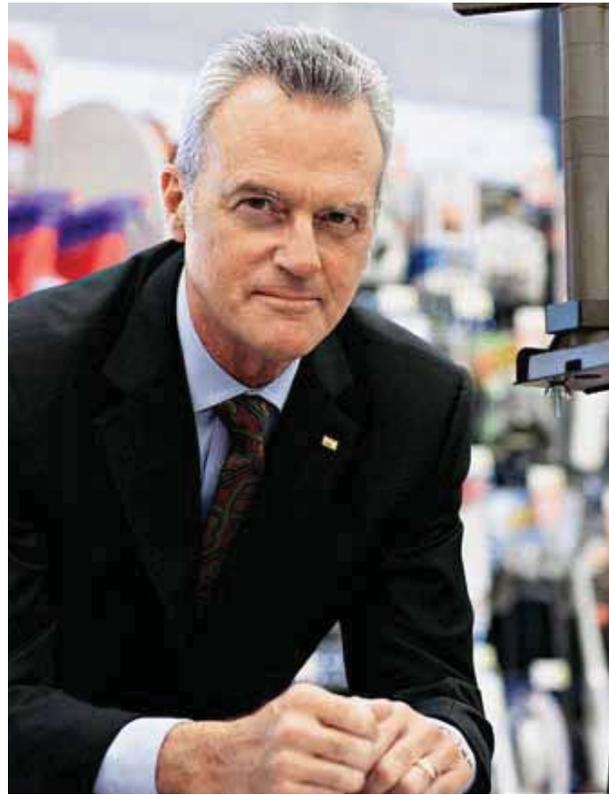
Miles apart they
can be located

*As of April 30, 2010



“WE ASK OUR LANDLORDS FOR A REDUCTION IN FUTURE RENT PAYMENTS IN EXCHANGE FOR LONGER LEASES. WE’RE A GOOD TENANT TO HAVE.”

— DAVID TEHLE, CHIEF FINANCIAL OFFICER



Vasos says. And he and his team were very specific. If the category was chocolate chip cookies, for example, “we told them we wanted the DG brand cookies [called Clover Valley] to taste as good as Chips Ahoy!”

The vendors who were able to meet these higher standards stayed on; nearly two-thirds couldn’t and either lost the Dollar General account or were asked to produce a second-tier, private-label brand called Smart & Simple, priced even lower than the Dollar General brand. Kyle Tucci, senior vice president at Valor Brands, a manufacturer of private-label diapers based in Alpharetta, Ga., says his company went from being one of three suppliers of Dollar General’s private-label diapers to being the sole supplier: “They are all about building their brand, and they expected us to match their knowledge and commitment to the product.” (For the full story on how Dollar General achieved double-digit sales growth with a private-label product, visit nysemagazine.com/dgprivate.)

REAL ESTATE ACUMEN

Aside from the goods inside the stores, Dreiling discovered that Dollar General’s real estate strategy needed some fast help too. For a long time, the CEO says, the company had a real estate process that wasn’t strategic. “If it was available and cheap,” he summarizes, “we’d build a store.”

What Dollar General needed, Dreiling felt, was a comprehensive, information-centric system for selecting (or rejecting) future

store sites. Most Dollar General stores are located in rural or small towns that aren’t big enough for WAL-MART STORES INC. (WMT) or other big-box retailers. “There’s a certain art to picking the right location, but it has to be backed up with analytical rigor,” explains Kathleen Guion, division president of Dollar General store operations and development. Predictive tools, including Nielsen consumer research and its Claritas online demographic data, are just some of the sophisticated methods Guion and her team now use to analyze whether a potential store site will be successful. Dreiling has a more regular-guy way of describing the company’s new approach. “It used to be like throwing spaghetti against the wall and seeing what stuck,” he explains. “Now it’s like throwing a dart into the bull’s-eye.”

Whatever the description, the company claims the new strategy is working. According to Guion, the Dollar General stores that opened in the first quarter of this year are already ringing up sales close to 90 percent of the chain’s store average. Once given the green light, a Dollar General store is relatively quick and inexpensive to build, Guion says, because of its small size and strip center location. “If it’s ‘build to suit,’ the developers can get it done in nine to 12 months,” she explains. “With an existing space that has to be remodeled, it takes about six months.” Total cost: just \$245,000, including \$105,000 in inventory, she reports. And because the company is more

confident now about the success of each new Dollar General it opens, it’s willing to sign longer leases, something it didn’t do before Dreiling arrived. “We ask our landlords for a reduction in future rent payments in exchange for those longer leases,” says David Tehle, chief financial officer. “We’re a good tenant to have.”

Dollar General’s newfound real estate acumen will be put to the test as the company plans to open 600 new stores by the end of fiscal 2010. Dreiling figures there is room to open 8,000 stores in existing markets and 4,000 additional ones in states, mostly on the West Coast, that the company has yet to enter. And because customers shop at Dollar General as a fill-in convenience store, he explains, the belief is that they can be located as close as one mile apart and not cannibalize one another in metro locations. “Operating 12,000 stores may sound like a lot, but if they eventually expand into the western U.S. and continue to take share from drugstores, it could work,” says Wells Fargo’s Nemer. Dreiling vows not to open new stores “just for the sake of opening stores,” however. “We have a lot of projects in the works,” he says, “and we don’t want to get ahead of our skis.” ■

STARS
OF

» BY JOHN BOYD

INDIA

Deregulation in the 1990s set free India's entrepreneurial spirit. Now the country's top business leaders are making their presence felt at home and around the globe.



It's easy to see why India is one of the world's most exciting emerging markets: trade liberalization of the 1990s, economic growth of 6 percent to 9 percent annually, infrastructure improvements and steady job growth. Also playing a major role are the country's top corporations, which create not only jobs but also social programs that improve lives. India has built a reputation for its low-cost offshore services, most notably in business process outsourcing, information technology and software, with companies such as GENPACT LTD. (G) and WIPRO LTD. (WIT) leading the way. The nation has also made strides in metals and mining, with STERLITE INDUSTRIES (INDIA) LTD. (SLT); pharmaceuticals, with companies such as DR. REDDY'S LABORATORIES LTD. (RDY); manufacturing, with TATA MOTORS LTD. (TTM); and banking, with HDFC BANK LTD. (HDB). Here are the stories of the visionary leaders behind these companies.

OPEN FOR BUSINESS Mumbai, known as Bombay until 1996, is the commercial capital of India.



To read about how each of these companies is helping raise living standards in India through corporate social responsibility programs, visit nysemagazine.com/IndiaCSR.



Pramod Bhasin

PRESIDENT AND CEO GENPACT LTD. (G)

THE MANAGER

WEBSITE genpact.com

IPO DATE Aug. 2, 2007

MARKET Business process and technology management, with services ranging from procurement and supply-chain management to health-care, media and pharmaceutical operational solutions

2009 REVENUE \$1.1 billion

NUMBER OF EMPLOYEES 42,500

MARKET CAP \$3.7 billion*

FOUNDED IN 1997 as an internal business unit of GENERAL ELECTRIC CO. (GE), Genpact (formerly known as GE Capital International Services) has always been under the leadership of Pramod Bhasin. Bhasin has expanded Genpact's activities to include a

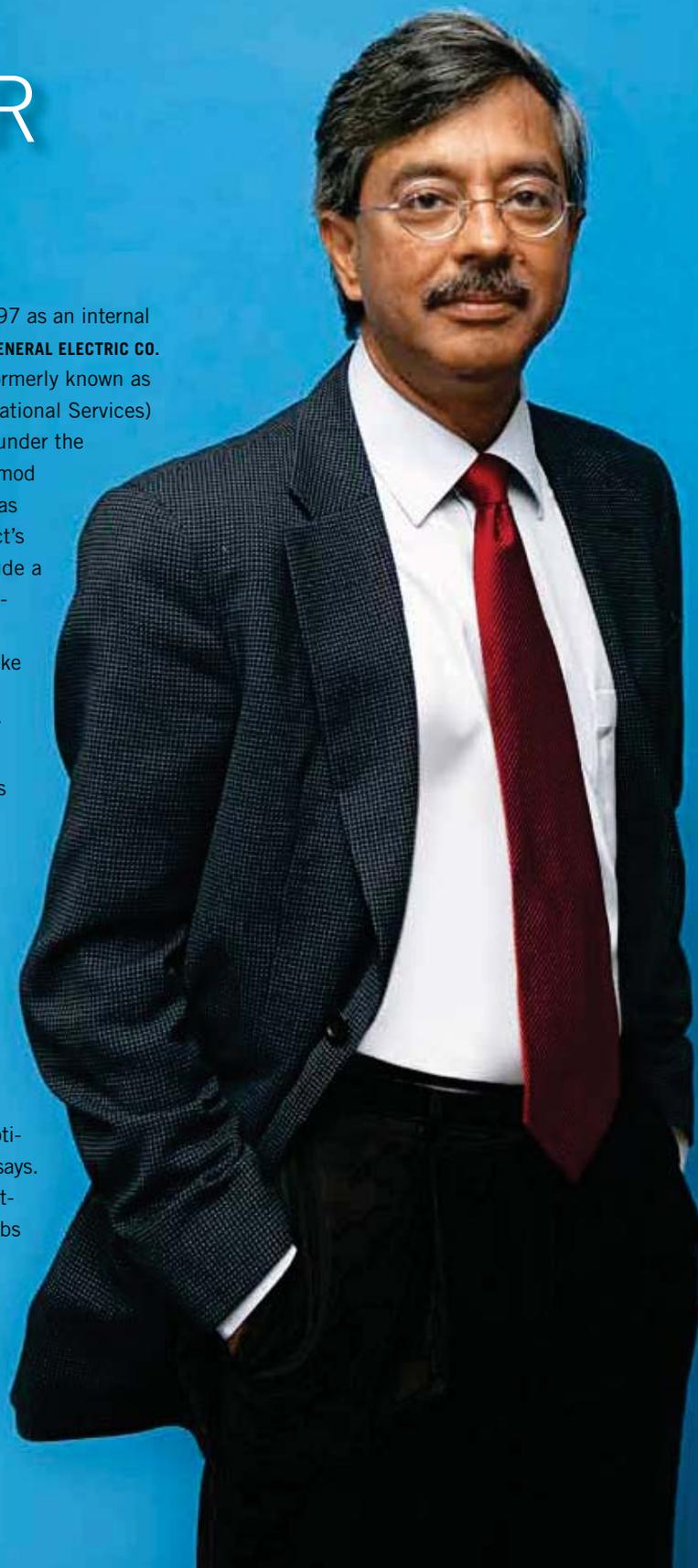
wide range of services, and he helped establish it as an independent company in 2005.

"We began by taking over relatively simple business processes like credit-card processing and financing and accounting processes for GE," says Bhasin, 58, who is also chairperson of the Junior Achievement India Founders Board and a former chairman of India's National Association of Software and Services Companies (NASSCOM), a trade organization dedicated to growing the global offshoring IT market. "Over time we took on managing increasingly sophisticated processes and moved into IT and customer services, pioneered the call-center business in India, then began providing the same services for other companies around the world."

Commenting on the reason for Genpact's success, Bhasin points to "the cost advantages we can deliver to our customers, which are very significant — typically 30 percent to 50 percent on whatever processes we handle for them." He notes that the services the company is able to provide have grown more complex. "Now we can close a company's books, conduct treasury management and optimize hospitals from offshore, so ever more sophisticated work," he says.

According to Bhasin, the IT services and business process outsourcing (BPO) industries have created 40 percent of all urban jobs in India during the past 10 years. "And for every one person employed directly," he says, "we estimate there are three or four employed indirectly in areas like training, education and consulting, transport and infrastructure. The range of jobs we have created in India is remarkably large."

*All market caps as of Sept. 20, 2010



Azim Premji

CHAIRMAN WIPRO LTD. (WIT)

THE TECHNOLOGIST

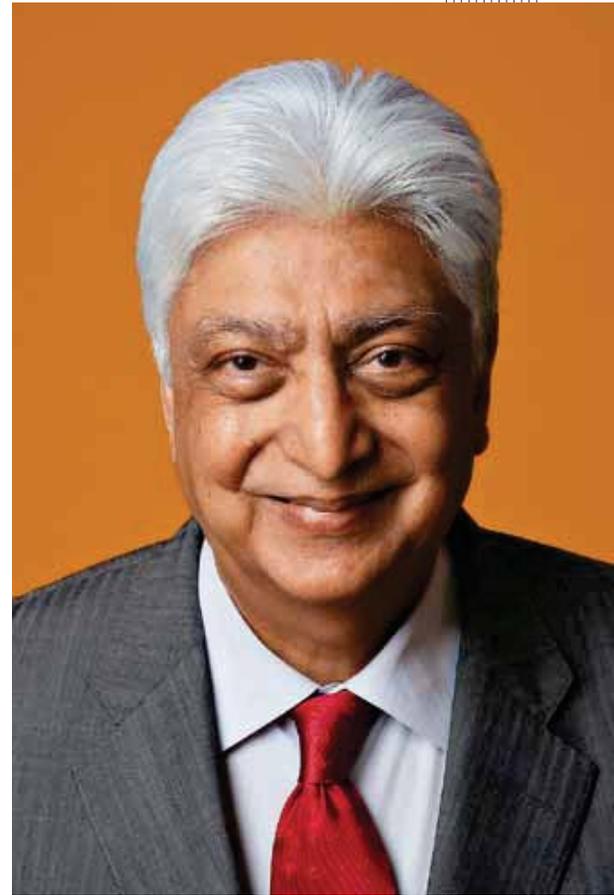
WEBSITE wipro.com**IPO DATE** Oct. 19, 2000**MARKET** A global provider of IT services including systems integration, IT outsourcing and software application development**2009 REVENUE** \$6 billion**NUMBER OF EMPLOYEES** 113,000**MARKET CAP** \$34.4 billion

IN 1966, WHEN AZIM PREMJI was 21 years old and close to completing a degree in electrical engineering at Stanford University, he got a call from home with news that his father had died. Premji immediately returned to India to take over the family edible oil business, Wipro (Western India Palm Refined Oil Ltd.).

Despite his loss and abrupt change of plans, Premji went on to complete his degree via correspondence courses, then set about diversifying the company, taking up manufacturing hydraulic and pneumatic cylinders as a first step. His chance to make use of his electrical engineering degree came in 1977, when **IBM CORP.** (IBM) decided to exit India after a dispute with the government. Premji saw the opportunity this presented, and Wipro began developing its own computers, subsequently moved into software development and then began providing IT services.

“Several factors helped our early expansion in IT services,” says Premji. “We nurtured the right talent based on industry needs and became adept at process management. This in turn helped us to set up processes that seamlessly transferred customer IT operations to India.” For his role as an IT outsourcing pioneer, Premji, who sits on the Prime Minister’s Advisory Committee for Information Technology, was featured on the cover of the International-Asian *BusinessWeek* in 2003 under the title “India’s Tech King.”

Wipro has used acquisitions — 12 in all — to further grow its IT business. Its largest acquisition to date is the 2007 purchase of American IT infrastructure business process company Infocrossing Inc. for a reported \$600 million. The acquisition of Infocrossing is an example of “our strategy to increase Wipro’s presence in the U.S. to enable better customer intimacy,” says Premji. As of March 2010, he says, the U.S. market accounted for 57 percent of Wipro’s \$6 billion in revenues.



“Several factors helped our early expansion in IT services. We nurtured the right talent based on industry needs and became adept at process management.”



“We have invested \$1.5 billion in Hindustan Zinc Ltd. to make it the world’s largest integrated zinc-lead producer.”

Anil Agarwal

CHAIRMAN AND FOUNDER

STERLITE INDUSTRIES (INDIA) LTD. (SLT)

THE PROSPECTOR

WEBSITE sterlite-industries.com

IPO DATE June 19, 2007

MARKET India’s largest metals and mining company by market cap, Sterlite is involved in the smelting and refining of nonferrous metals such as zinc, copper and aluminum in India and Australia.

FISCAL YEAR 2010 REVENUE \$5.5 billion

NUMBER OF EMPLOYEES 14,000

MARKET CAP \$12.7 billion

NOT “RAGS” BUT rather “scrap metal” to riches is the story behind entrepreneur Anil Agarwal’s climb to success in the global metals market. Upon graduating from high school, Agarwal took his

first entrepreneurial step by going into business for himself collecting scrap metal from cable companies around India and selling it in Mumbai. In 1979, during his mid-twenties, he founded Sterlite with the help of a bank loan, originally as a manufacturer of telecom and power cables. Through this business, he says, he learned that India was rich in untapped minerals — particularly bauxite, zinc, iron ore and coal. He went on to transform Sterlite into the enterprise it is today.

The company has grown steadily through acquisitions such as that of Copper Mines of Tasmania Pty. Ltd. in Australia, which now supplies copper for Sterlite’s copper-smelting operation in Tuticorin, India, in 1999; government-divested Bharat Aluminum Co. Ltd. in 2001; and Hindustan Zinc Ltd. in 2002. “We have invested around \$1.5 billion in Hindustan Zinc Ltd. to increase its capacity from 200,000 tons per annum to 1.06 million tons per annum, making it the world’s largest integrated zinc-lead producer,” says Agarwal, 56. “And we are now acquiring Anglo American’s zinc assets in South Africa, Namibia and Ireland for \$1.3 billion.”

Sterlite is also seeking to enter businesses that complement mining and smelting. “A good example of this is our foray into the commercial energy generation business,” says Agarwal, who is based in London. “We entered this sector in November 2006 after the government opened it to private investment. Currently we are setting up facilities to generate 4,400 megawatts of commercial power annually.”

Gunupati Venkateswara Prasad

VICE CHAIRMAN AND CEO

DR. REDDY'S LABORATORIES LTD. (RDY)

THE HEALER

WEBSITE drreddys.com

IPO DATE April 11, 2001

MARKET An integrated global pharmaceuticals company that produces generic drugs, creates its own pharmaceuticals and makes the active ingredients employed in hundreds of drugs

FISCAL YEAR 2010 REVENUE \$1.6 billion

NUMBER OF EMPLOYEES More than 13,000

MARKET CAP \$5.5 billion

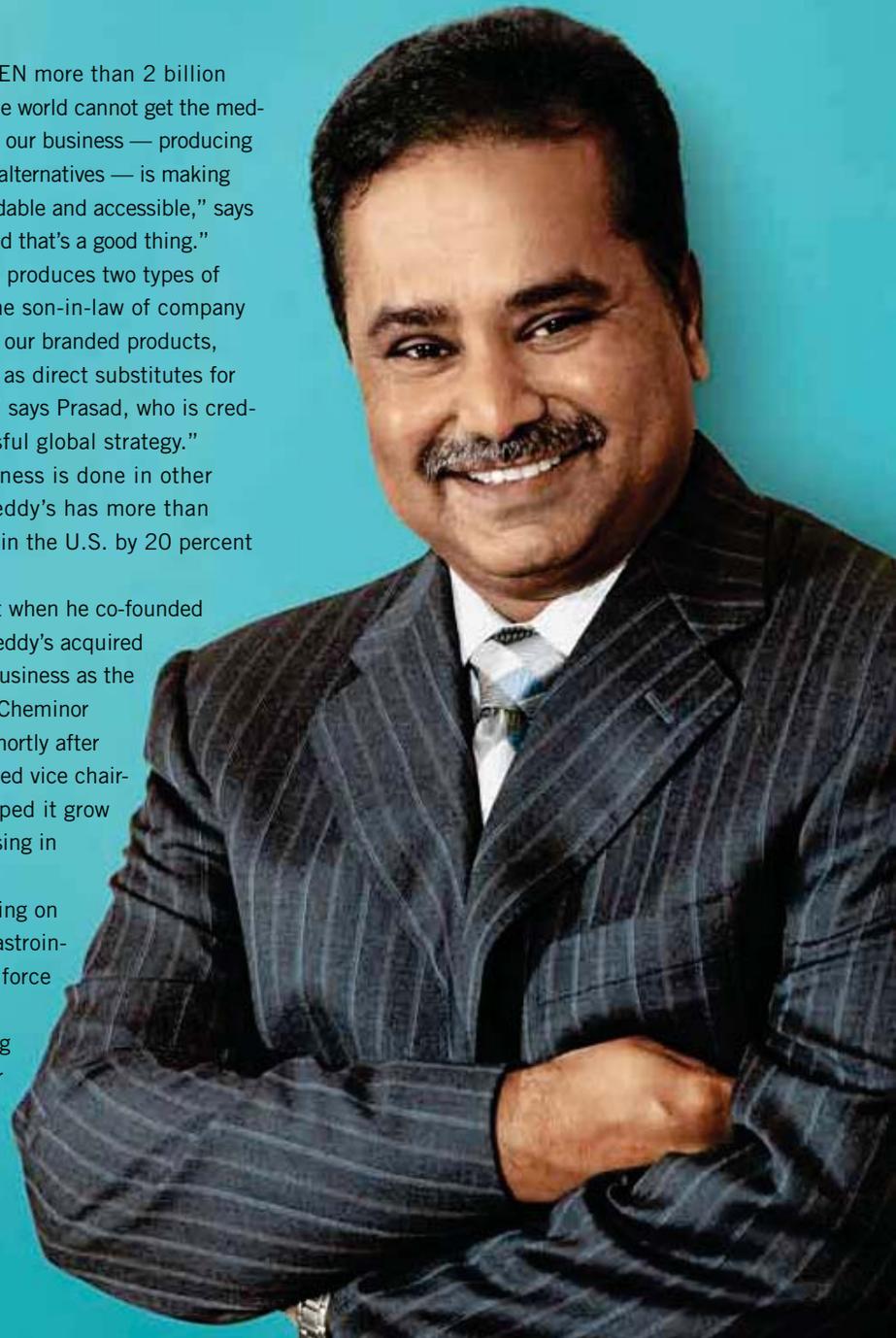
"AT A TIME WHEN more than 2 billion people around the world cannot get the medicines they need, our business — producing low-cost generic alternatives — is making drugs more affordable and accessible," says G. V. Prasad. "And that's a good thing."

The company produces two types of generic drugs: branded and unbranded, says Prasad, 50, the son-in-law of company founder Dr. K. Anji Reddy. "Branded means doctors prescribe our branded products, mainly in India and Russia, while unbranded drugs are used as direct substitutes for the branded products and are used in the U.S. and Europe," says Prasad, who is credited by the company as being "the architect of this successful global strategy."

According to Prasad, 80 percent of the company's business is done in other countries. Of that, 30 percent is in the U.S., where Dr. Reddy's has more than 300 employees. "We're planning on expanding that number in the U.S. by 20 percent to 25 percent in the near future," he says.

The U.S.-educated Prasad tested his entrepreneurial talent when he co-founded Benzex Laboratories Pvt. Ltd., a bulk drugmaker, which Dr. Reddy's acquired in 1988. Two years later, he returned to the pharmaceutical business as the managing director of another Indian bulk drug manufacturer, Cheminor Drugs Ltd., a Dr. Reddy's group company. In January 2001, shortly after Cheminor Drugs merged with Dr. Reddy's, Prasad was appointed vice chairman and CEO of Dr. Reddy's. The company says he has helped it grow at a compounded annual rate of 25 percent, with revenues rising in 2009 and 2010 to reach a reported \$1.6 billion.

In India the company's 10,000-plus employees are focusing on several therapeutic drugs used in the treatment of cancer, gastrointestinal diseases and infections. "We're expanding our sales force to improve our coverage in the smaller towns and villages," says Prasad. "And as we expand, we are in fact strengthening our ability to provide affordable and innovative medicines for healthier lives."



Ravi Kant

VICE CHAIRMAN

TATA MOTORS LTD. (TTM)

THE DRIVER

WEBSITE tatamotors.com

IPO DATE Sept. 27, 2004

MARKET India's largest manufacturer of motor vehicles by revenues, claiming domestic leadership in almost all segments of commercial vehicles

2009/2010 REVENUE \$20 billion

NUMBER OF EMPLOYEES 41,000

MARKET CAP \$12.2 billion

LESS THAN A DECADE AGO, Tata made no large trucks, buses or luxury cars outside India. But after a string of overseas acquisitions and tie-ups — including the high-profile purchases of South Korea's Daewoo Commercial Vehicle Co. Ltd. in 2004, Spanish-based bus and coach manufacturer Hispano

Carrocera SA in 2009, and the Jaguar and Land Rover brands from **FORD MOTOR CO.** (F) in 2008 — the company is now recognized as a serious player in the global auto industry.

The metamorphosis began after Ravi Kant, 66, came on board as executive director of Tata's Commercial Vehicle Business Unit in 2000. He had been director of consumer electronics at Philips Electronics India Ltd., a health-care-products subsidiary of Netherlands-based **ROYAL PHILIPS ELECTRONICS NV** (PHG). Five years later, he assumed the managing director's role, and upon reaching Tata's mandatory retirement age of 65 in 2008, he was appointed nonexecutive vice chairman.

Kant, who has a bachelor's degree from the Indian Institute of Technology, Kharagpur and a master's from Aston University in the U.K., gives two major reasons for Tata's rapid overseas expansion. "We are in a cyclical industry, so to offset our dependency on the domestic market, we are developing these international markets. We are now strong in several segments in India. In commercial vehicles, for instance, we have a market share of more than 60 percent. So if we want to grow larger, we have to look outside the country."

Tata Motors reports one of the largest head counts of overseas employees of any Indian company, at around 18,000. In India the company has six manufacturing plants, as well as regional offices for sales, service and parts. "Directly we employ about 23,000 people domestically," Kant says, "but we also create a lot of indirect employment through feeder industries. We estimate the number of indirect jobs to be around 200,000."



Aditya Puri
 MANAGING DIRECTOR
 HDFC BANK LTD. (HDB)

THE FINANCIER

WEBSITE hdfcbank.com

IPO DATE July 20, 2001

MARKET One of the country's first private-sector banks, HDFC Bank Ltd. operates more than 1,700 branches in 779 cities and maintains more than 4,200 ATMs.

2009 REVENUE \$4.5 billion

NUMBER OF EMPLOYEES 51,888

MARKET CAP \$27.8 billion

REFLECTING ON HIS 36 years of banking experience in India and abroad, Managing Director Aditya Puri says, "HDFC Bank offers the entire gamut of banking services: corporate banking, wholesale and retail banking, loans, forex and payment services, and treasury, and we also have a small invest-

ment arm focusing on mergers and acquisitions for small and medium-size companies."

After attending Punjab University, Puri joined Citibank India, and over two decades, he worked his way up the management ladder, including becoming country head for India and Sri Lanka and eventually becoming the CEO of Citibank Malaysia in 1992. He had held that position for only two years when the newly created HDFC Bank lured him away to become its managing director in 1994.

Puri, 59, notes that Indian banks have come through the global economic crisis relatively unscathed. "We didn't get involved in subprime loans or risky derivatives or take on large collateral debt," he says. "Of course, we have felt the effects of the global economic downturn: India's growth rate fell to around 6 percent, from 8.5 percent."

HDFC Bank colleagues credit Puri with changing the way its customers bank today, through his advocating the extensive use of new technologies that have made the bank's services more convenient and efficient. "We've expanded our range of products to include online banking and telephone banking," says Puri. "And we're taking these products into the rural areas, which lack traditional means of banking. We can't have such a large segment of the population unable to share in the country's growing economic prosperity."

As India's GDP continues to expand, Puri is upbeat about growth for HDFC Bank. "Thanks to the lifting of government restrictions, changes in the tax structure and improving infrastructure," he says, "India is beginning to achieve its potential."



"We're taking [our] products into the rural areas. We can't have such a large segment of the population unable to share in the country's growing economic prosperity."

REIT RENAISSANCE

Fifty years after their creation, real estate investment trusts are still finding ways to unlock value for investors.

BY ALEC FOEGE » ILLUSTRATION BY JOHN GRIMWADE

FOR WEYERHAEUSER CO.'S (WY) board and President and CEO Dan Fulton, the best way to execute a growth strategy centered on the company's timberland was clear: It involved converting to a publicly traded real estate investment trust, or REIT. In December 2009, the 109-year-old forest-products company, based in Federal Way, Wash., announced the conversion. Fulton, CEO since April 2008, spent the first year of his tenure refocusing the firm on its core business of growing and harvesting trees while grappling with the challenges of a weak housing market. Fulton says that changing to a REIT increases the competitiveness of the company and its ability to deliver more value to its shareholders.

As a REIT, Weyerhaeuser will pass through its REIT-qualified timber earnings to shareholders without corporate-level tax. That distribution will be taxable to shareholders. The company says it will continue to operate non-REIT businesses, such as wood products, cellulose fibers and homebuilding.

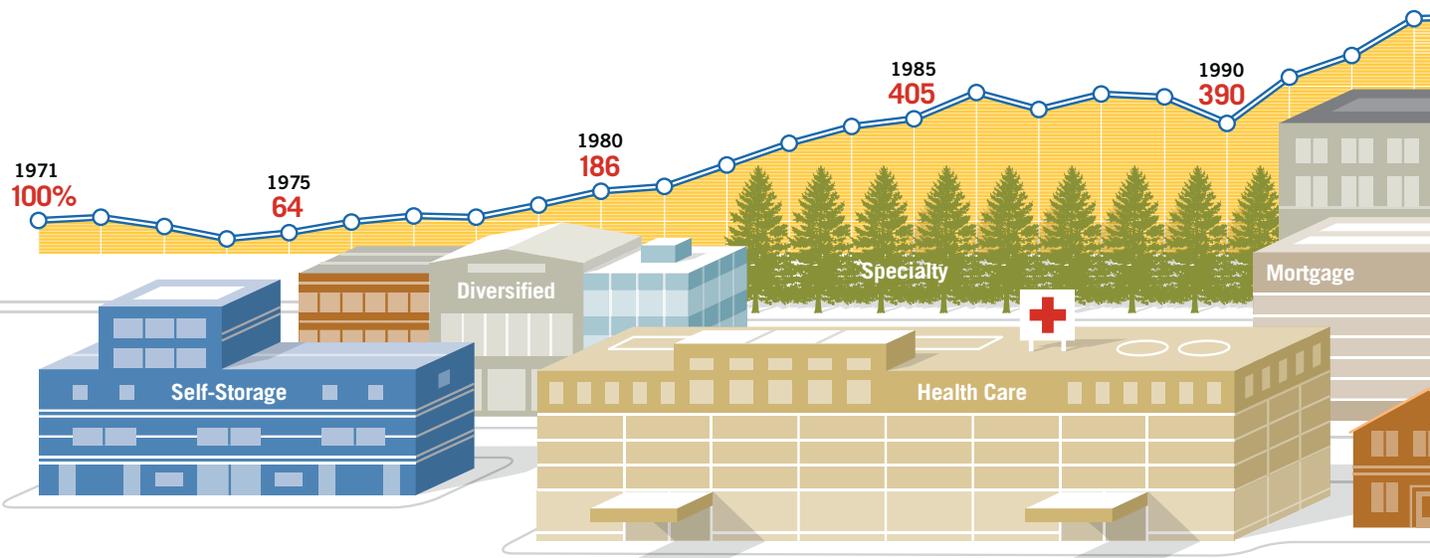
"The REIT structure will help us unlock the value of our current timberlands assets and is

the most efficient structure for increasing our timberlands holdings over time," Fulton says. "At the same time, it enables us to pass along our significant timberlands earnings to shareholders in a more tax-efficient manner." (At press time, Weyerhaeuser was in the process of REIT conversion.) Adds Debra A. Cafaro, chairman, president and CEO of **VENTAS INC.** (VTR), an owner of senior housing and health-care

facilities: "I think Weyerhaeuser is representative of a larger trend. We'll see more private assets converting to REITs."

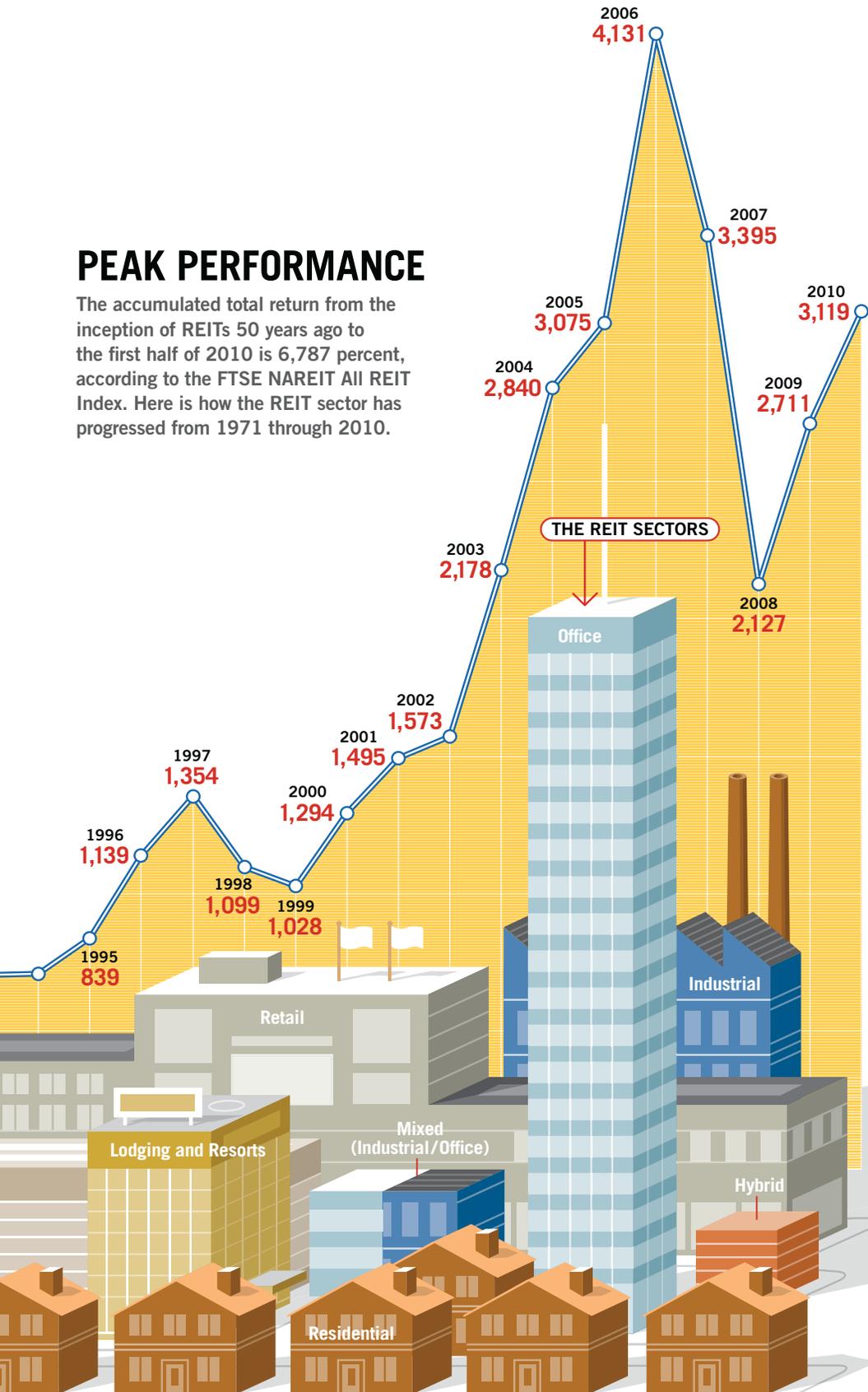
Their enthusiasm should hardly be surprising. While the economy remains uncertain, REITs, which turn 50 this year, are enjoying something of a renaissance. Buoyed by strong balance sheets and steady dividends, REITs weathered the recent recession better than most public corporations, according to Keefe, Bruyette & Woods Inc., a subsidiary of **KBW INC.** (KBW). Mutual funds that invest in real estate — a group that includes REIT funds — lost 39.7 percent of their value in 2008, during the downturn, according to Lipper. But in 2009, the category gained 30.4 percent. By year-end, the Dow Jones Equity All REIT Total Return Index had surged 31 percent, compared with a 25 percent rise in the S&P 500.

Indeed, most REITs seem to zig when others in real estate zag. During the real estate bubble, "readily available capital spurred speculative new construction by people expecting to get rich quick," says Steve Tanger, president and CEO of discount retailer **TANGER FACTORY**



PEAK PERFORMANCE

The accumulated total return from the inception of REITs 50 years ago to the first half of 2010 is 6,787 percent, according to the FTSE NAREIT All REIT Index. Here is how the REIT sector has progressed from 1971 through 2010.



SOURCE: FTSE NAREIT ALL REIT INDEX PERFORMANCE DATA FROM DECEMBER 1971 THROUGH JULY 31, 2010

THE LARGEST REITS BY CATEGORY*

RETAIL 22.5%†

Simon Property Group Inc. (SPG)
Market cap: \$25.9 billion
Headquarters: Indianapolis

Kimco Realty Corp. (KIM)
\$6 billion
New Hyde Park, N.Y.

The Macerich Co. (MAC)
\$5.3 billion
Santa Monica, Calif.

HEALTH CARE 12.1%

HCP Inc. (HCP)
\$10.4 billion
Long Beach, Calif.

Ventas Inc. (VTR)
\$7.9 billion
Chicago

Health Care REIT Inc. (HCN)
\$5.6 billion
Toledo

RESIDENTIAL 13.2%

Equity Residential (EQR)
\$12.9 billion
Chicago

AvalonBay Communities Inc. (AVB)
\$8.7 billion
Arlington, Va.

UDR Inc. (UDR)
\$3.4 billion
Highlands Ranch, Colo.

OFFICE 12.4%

Boston Properties Inc. (BXP)
\$11.3 billion
Boston

SL Green Realty Corp. (SLG)
\$4.7 billion
New York City

Alexandria Real Estate Equities Inc. (ARE)
\$3.1 billion
Pasadena

MORTGAGE 7.5%

Annaly Capital Management Inc. (NLY)
\$10.8 billion
New York City

Chimera Investment Corp. (CIM)
\$3.4 billion
New York City

MFA Financial Inc. (MFA)
\$2 billion
New York City

DIVERSIFIED 6.2%

Vornado Realty Trust (VNO)
\$15 billion
New York City

Washington Real Estate Investment Trust (WRE)
\$1.8 billion
Rockville, Md.

Lexington Realty Trust (LXP)
\$860 million
New York City

*The top three REITs per category as measured by market cap, as of July 31, 2010, according to NAREIT. †The percentage of the overall REIT market that this category accounts for.

THE LARGEST REITS BY CATEGORY *(Continued)*

SELF-STORAGE 6.2%

Public Storage (PSA)
\$16.7 billion
Glendale, Calif.

Extra Space Storage Inc. (EXR)
\$1.3 billion
Salt Lake City

Sovran Self Storage Inc. (SSS)
\$1 billion
Buffalo

SPECIALTY 6.1%

Plum Creek Timber Co. Inc. (PCL)
\$5.8 billion
Seattle

Digital Realty Trust Inc. (DLR)
\$5.4 billion
San Francisco

Rayonier Inc. (RYN)
\$3.9 billion
Jacksonville

LODGING AND RESORTS 6.1%

Host Hotels & Resorts Inc. (HST)
\$9.4 billion
Bethesda, Md.

Hospitality Properties Trust (HPT)
\$2.5 billion
Newton, Mass.

LaSalle Hotel Properties (LHO)
\$1.7 billion
Bethesda, Md.

INDUSTRIAL 4.6%

ProLogis (PLD)
\$5.1 billion
Denver

AMB Property Corp. (AMB)
\$4.2 billion
San Francisco

DCT Industrial Trust Inc. (DCT)
\$990 million
Denver

MIXED (INDUSTRIAL/OFFICE) 2.7%

Liberty Property Trust (LRY)
\$3.6 billion
Malvern, Pa.

Duke Realty Corp. (DRE)
\$3 billion
Indianapolis

PS Business Parks Inc. (PSB)
\$1.4 billion
Glendale, Calif.

HYBRID 0.4%

iStar Financial Inc. (SFI)
\$478.5 million
New York City

NorthStar Realty Finance Corp. (NRF)
\$256.2 million
New York City

PMC Commercial Trust (PCC)
\$86.5 million
Dallas

OUTLET CENTERS INC. (SKT). “When we saw that happening, we did the opposite.” The company says that from 2000 to 2007, it sold 14 underperforming properties and reinvested the proceeds in upgrading its stronger-performing centers. “Some called us dinosaurs for not getting the so-called new paradigm during this period,” Tanger says, “but it was all about optimizing our assets for when the market readjusted.”

RESILIENT AND QUICK TO REACT

Although REITs span many industry sectors, they often share traits that make them more resilient than most asset classes — including even real estate — over the long term, some analysts say. This includes strong management, superior investor relations and a proven track record when it comes to acquisitions.

ANALYSTS WERE CAUGHT OFF GUARD BY THE EXCEPTIONAL PERFORMANCE OF REITS IN THE FIRST HALF OF 2010.

“Balance sheet protection was a key item for the industry and for us [during the downturn],” says Mark E. Zalatoris, president and CEO of **INLAND REAL ESTATE CORP. (IRC)**, an owner and operator of shopping centers in the Midwest. “It goes with the whole aspect of being listed on the NYSE — the ability to access the equity markets to reduce debt to acceptable levels and strengthen balance sheets for purposes including downside protection, acquisition of distressed assets or just basic financial stability.”

U-STORE-IT TRUST (YSI) CEO Dean Jernigan, who has led the self-storage REIT since 2006, adds that another key to survival is turning distress into opportunity. Self-storage, he says, is a “recession-resistant” business, but small operators are struggling to compete. Therefore, U-Store-It is now focused on industry consolidation. “We have tremendous opportunity to grow by building partnerships,” says Jernigan.

Other REIT executives say it’s what you do with the acquisitions. “We try to create an increasing stream of cash flows — we don’t like valleys and peaks,” says Donald C. Wood, president and CEO of **FEDERAL REALTY INVESTMENT TRUST (FRT)**, which owns, operates and manages retail and mixed-use properties in the Mid-Atlantic, the Northeast and California. That means filling properties in high-income, high-density suburbs of major metropolitan areas with big-name retailers such as Petco, Bed Bath & Beyond, and Whole Foods Market, Wood says. “A higher level of sales equals a higher ability to pay rent, which drives shareholder value.”

But many analysts admit to being caught off guard by the exceptional performance of REIT stocks in the first two quarters of 2010, anticipating a crash in commercial real estate as the housing bust festered. Indeed, the hottest REIT sector at that time was apartments, according to industry data. “When we talk about the downturn, we need to differentiate between what happened with home prices and commercial real estate values and apartment fundamentals,” says Jeffrey I. Friedman, chairman, president and CEO of apartment REIT **ASSOCIATED ESTATES REALTY CORP. (AEC)**. “Occupancy and rent growth were weakest when traditional renters became buyers as the result of low interest rates and low or no credit standards,” Friedman says. Associated Estates used that period to hone customer service, hire new employees and manage its risks until market conditions improved.

Steven A. Wechsler, National Association of Real Estate Investment Trusts president and CEO, says REITs are not immune to the economic forces affecting the private real estate market, such as high unemployment. The difference is that “REITs will react quickly to a downturn,” he says. “In private real estate, it’s a slower process — appraisers have to look at value. Public REITs get priced every day. And real-time pricing and liquidity on the stock market is what leads the way out of a recession.” ■

ON THE WEB » Visit nysemagazine.com/naturalgas to read a full report on the latest trends in the U.S. natural gas industry.

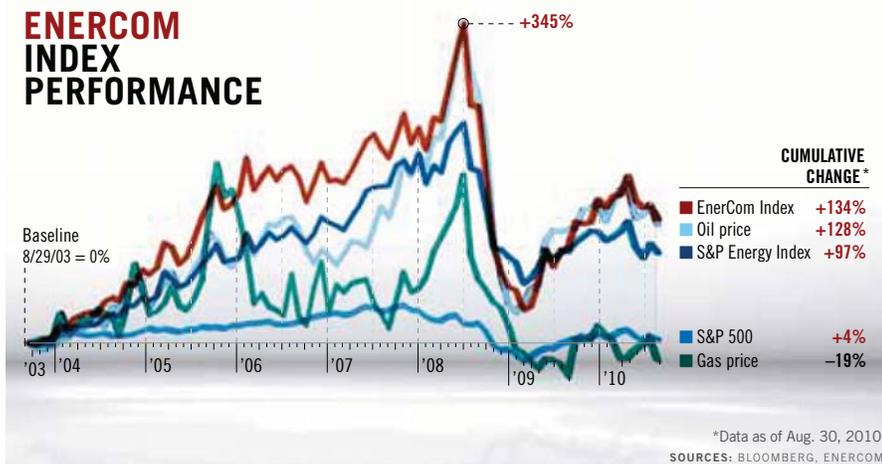
ENERGY OUTLOOK

The EnerCom Oil & Gas Conference brings together top industry players and investors from around the globe.

BY REBECCA MCREYNOLDS

JEFFREY VENTURA, PRESIDENT AND COO of **RANGE RESOURCES CORP. (RRC)**, one of 90 presenting companies at the 2010 EnerCom Oil & Gas Conference in Denver this summer, says his company is betting on shale (*visit nysemagazine.com/naturalgas for more on this development*). Through its 2004 discovery of the Marcellus Shale, which stretches from West Virginia to northeastern Pennsylvania, the company has the opportunity to grow eight to 10 times over, Ventura says. “We’re directing more than 80 percent of our capital spending toward the Marcellus Shale in 2010,” he says.

ENERCOM INDEX PERFORMANCE



Ventura was one of 2,000-plus attendees at the 15th annual conference, which **NYSE EURONEXT (NYX)** has sponsored since inception. In fact, 98 percent of the market value of all qualified oil and gas companies is listed on NYSE Euronext.

According to Greg Barnett, founder and president of EnerCom, an investor communications consultancy firm that serves the industry, the event has become a must-attend for

industry players. Barnett says he can directly measure the quality of the conference by the EnerCom Index. Designed in 2003, the index represents a stock price-weighted basket of all of the conference presenters (making adjustments every year as the roster changes). From August 2003 through July 2010, he says, the EnerCom Index has outperformed both the S&P 500 and the S&P Energy Index (*see chart*). “We select companies we believe are going to



perform beyond the market’s expectations and that the market will respond to positively,” he says. “This is a great place for investors to meet management and think about their portfolios for the next 12 months or so.”

Less quantifiable but no less tangible is the impact that the conference has had on the industry itself, Barnett says. Many connections have led to partnerships and industry breakthroughs, such as technological innovations or the identification of new exploration opportunities, he adds. For example, in 2002, **PIONEER NATURAL RESOURCES CO. (PXD)** expanded its business into Alaska after meeting with privately held exploration and production company Armstrong Oil and Gas. The result was the discovery of the Oooguruk oil field in 2003.

In addition to the live audience, thousands participated online, watching Webcasts by and interviews with top presenters. Visit theoilandgasconference.com and oilandgas360.com to view the archived presentations and interviews. ■

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» For information on having your event at the NYSE, visit nyx.com/eventrental or contact CorporateEvents@nyx.com.

EVENTS



LISTING IN LONDON

International issuers have a new entry point to NYSE Euronext in London, the largest equity market in Europe.

A NEW LONDON MARKET is now open for international issuers to raise capital and list their securities. NYSE Euronext London unites the visibility of London as one of the world's leading financial centers with **NYSE EURONEXT's** (NYSE) leadership in the European markets, a powerful combination that is expected to attract international issuers, as well as financial intermediaries and investors.

"This is a natural next step in NYSE Euronext's evolution and a logical extension of our European cash markets," says Dominique Cerutti, NYSE Euronext president and deputy CEO. "NYSE Euronext London combines the strength and visibility of our global brand and our leadership position in European cash mar-

kets with NYSE Liffe's established presence in London and worldwide. Moreover, the new listing venue strengthens the competitive position of NYSE Euronext's European markets."

Complementary to NYSE Euronext's markets in Paris, Amsterdam, Brussels and Lisbon, NYSE Euronext London offers international issuers the opportunity to list shares and depositary receipts on the Official List of the U.K. Listing Authority, or UKLA. In addition, issuers

will benefit from having their securities traded on NYSE Euronext's state-of-the-art Universal Trading Platform (UTP), which connects all its European securities markets and represents Europe's largest cross-border equity exchange. "If you come to NYSE Euronext, you're accessing a global market with the deepest and broadest pool of liquidity of any equities exchange group — a market that is evolving to ensure this pool of liquidity and investor base only continues to grow," says Ronald Kent, CEO of NYSE Euronext London and head of International Listings at NYSE Euronext.

One of the ways NYSE Euronext is doing so is through its rollout of UTP across the Atlantic for all products in 2011, says Kent.

3.3

TRILLION EUROS (US\$4.2 trillion):
The combined market capitalization of NYSE Euronext's European markets.

“UTP is the technology enabler, the foundation of a connected market,” he says, “connecting our markets and investors in ways that are simply better, more frequent and with more touch points than any other global exchange group.”

Kent believes this vision of a unified market with an open-architecture philosophy will attract international companies that are determined to tap the London market, yet up to now could not consider NYSE Euronext an option. “Our new London market provides issuers with all of the global visibility and market quality an NYSE Euronext listing affords,” he says. “Whether it’s via our London market or any of our other markets, you enter our harmonized pan-European marketplace where everyone is treated equally.”

As of August, NYSE Euronext’s European markets list companies with a combined market capitalization of €3.3 trillion (US\$4.2 trillion) and trade more than €6.3 billion (US\$8.1 billion) worth of equity securities daily among a broad and deep investor base made up of U.K., Eurozone, U.S. and international investors. Trades are executed in major international currencies, including the U.S. dollar, the euro and the pound sterling.

NYSE Euronext has a long-standing presence in London with NYSE Liffe, its market-leading international derivatives business that began as the London International Financial Futures Exchange (LIFFE) in 1982. The trading of NYSE Euronext-listed international securities is supported by a robust, fully electronic, straight-through clearing and settlement system. This infrastructure, explains Kent, not only plays a key role in enhancing liquidity and market quality but provides full central counterparty services. This, he says, has the effect of reducing systemic and settlement risk for investors. “All of this,” he adds, “can lead to a lower cost of capital for issuers.” — *Jeanne Cotroneo Darrow*

Visit nysemagazine.com/London for more on this new market.

CHIEF REGULATOR

Claudia Crowley takes the reins of NYSE Regulation at a crucial time of market innovation and reform.

CLAUDIA CROWLEY, CEO of NYSE Regulation and chief regulatory officer (CRO) of the New York Stock Exchange (NYSE), NYSE Arca and NYSE Amex, has seen a lot of change. She came to NYSE Regulation in October 2008 in conjunction with NYSE Euronext’s acquisition of the American Stock Exchange® (Amex), where she had been CRO. In January 2009, she became chief of staff of NYSE Regulation. A seasoned securities regulator, she led the Amex through a period of complex regulatory change and joined NYSE Regulation in the midst of the 2008 financial crisis. Crowley now oversees all aspects of the NYSE, NYSE Arca and NYSE Amex regulatory programs, including listed company compliance; development and interpretation of all NYSE, NYSE Arca and NYSE Amex rules and policy; stock watch; and NYSE Regulation’s relationship with the SEC and the Financial Industry Regulatory Authority, or FINRA. She reports to the independent NYSE Regulation board.

» How important is regulation to the proper functioning of markets?

Trust and investor confidence are the foundation of capital markets, and they were damaged during the financial crisis. The crisis, as well as the events of May 6, highlight the importance of regulated, transparent markets. We are entering a period of enormous regulatory change, so instilling trust and confidence is crucial. The challenge is to be able to regulate while fostering competition and innovation.

How can markets regulate while fostering competition and innovation?

Each of the three marketplaces we regulate has its own unique market structure and set of rules. As our markets evolve, whether through new investment products, order types, trading technologies or functionalities, every potential change is assessed and, if necessary, tweaked in a collaborative way to ensure appropriate regulatory oversight. We work closely with our business colleagues, the market compliance group and FINRA to provide guidance on all market structure changes, sharing our knowledge and expertise as decisions are made.

The same holds true when it comes to listed company compliance. Our listing



standards accommodate a variety of corporate and organizational structures. However, when we look at listed company regulatory compliance issues, our foremost concern is to support investor protection. For example, we ask, is there appropriate and adequate disclosure? Does the company have the right corporate governance and internal controls? Is it in compliance with our listing requirements? Our key mission is to serve the interests of investor protection and market integrity. — *Jeanne Cotroneo Darrow*

For Crowley’s views on the new financial reforms and more, visit nysemagazine.com/CRO.

» For more on how NYSE Euronext is advocating on behalf of its listed companies, visit nyx.com/viewpoint. **ON THE WEB**



THE HARDWORKING 111TH

This Congress has been one of the most active and consequential in recent memory, and public companies cannot escape its reach.

AN ACTIVE CONGRESS » Few, if any, U.S. industries will escape the impact of the far-reaching policies of the 111th Congress. Indeed, it is difficult to recall a period in which U.S.-listed public companies faced more intense scrutiny from demanding lawmakers, assertive regulators, an aggressive news media or a skeptical public.

MAJOR LEGISLATIVE ACTIONS » After convening in January 2009, following the most serious financial crisis in decades, the 111th Congress took aim at reviving the economy and restoring faith in financial markets. Within a month of President Obama's inauguration, Congress adopted a stimulus package that sharply divided lawmakers. Supporters credit the stimulus with helping the U.S. save jobs and avoid a second Great Depression; opponents argue that the plan diverted investment from the private sector and put the country on a path of unsustainable fiscal deficits.

Although the early momentum behind financial reform legislation gave way to partisan bickering and delay, Congress eventually adopted landmark legislation that will rewrite the rules governing the financial industry. As regulators work to implement

the bill's major provisions, careful attention must be paid to ensuring that the new law addresses the core failures that precipitated the crisis without creating more confusion for market participants and restricting access to capital markets.

Perhaps the most significant legislative action took place last March, when President Obama signed into law a bill overhauling the entire U.S. health-care system — from the way doctors practice medicine to how employers provide health coverage to their employees. As the provisions of this bill take effect during the next several years, nearly every company listed on NYSE Euronext's U.S. exchanges will have to confront and overcome new challenges in the health-care market.

A LOOK AHEAD » Even if the November elections alter the political balance in Washington, the current Congress will remain in office until Jan. 3, 2011. Many observers expect an active "lame duck" Congress to attempt action on major issues, including energy and the environment, immigration reform and tax policy. But absent such action, the 112th Congress will have a full agenda when it is sworn in early next year. ■

NYSE Euronext: A Voice in Washington for All Listed Companies

As companies navigate a difficult economy, business leaders must increasingly focus attention not just on Main Street or even on Wall Street but also on the action at both ends of Pennsylvania Avenue.

For the past year, we at NYSE Euronext have ramped up our presence in Washington to make sure the interests of the 3,000 companies listed on our U.S. exchanges and the 35 million Americans they employ are represented in the policy-making process. We believe that NYSE Euronext can add to individual companies' efforts in Washington by acting as a voice for the listed community as a whole.

We have built a strong team, and we are already having an impact. In the financial reform debate, NYSE Euronext fought successfully to reduce the regulatory burden of Sarbanes-Oxley by winning an exemption from outside audit requirements for public companies with market caps of less than \$75 million. This success provides a foothold to drive further reform in the 112th Congress.