

Letter to Shareholders

An annual *Letter to Shareholders* can be an effective vehicle to communicate with all stakeholders beyond common stock shareholders. Employees, banks, counselors, suppliers and vendors can also benefit from the information provided.

It is an opportunity for the CEO to share his/her vision and strategy with prospective as well as existing shareholders and will lead to better informed investment decisions about the company.

It is an opportunity to summarize the progress made by the executive management team in the previous year and highlight significant future goals and objectives for the following year.

It is an opportunity for the CEO to lead employees and better align the entire organization with the company's longer term strategies and vision.

The following outlines a practical approach to developing the content for an annual *Letter to Shareholders*.

I. Set the Tone

Use the first paragraph to set the tone for the rest of the letter. Provide a balanced view of the year just ended in one to three sentences totaling 70 words or less. As an example:

Fiscal 2010 was another year of significant progress for the company. We executed several complex initiatives and continued to make great strides in delivering on the strategic initiatives that we have been working on for more than three years to improve the products and services we offer customers. Overall, the company's operations, competitive posture and foundation for profitable growth are all stronger today than a year ago.

II. Sales and Earnings

Report annual sales/revenues and earnings results in the next paragraph or two including comparisons with the previous year along with brief explanations about the variances. Lead with the line item with the greatest increase. If earnings grew at a faster rate than sales, talk about earnings first. Lead with revenues if that is a better comparison.

III. Financial Health

Discuss the financial health of the company in the next two paragraphs to include the balance sheet, cash flow or capital structure metrics which are

important to your company and the sector it serves. Provide proof points that you have access to capital to fund the company's strategies.

Examples of uses of capital to advance the enterprise could include but are not limited to capital expenditures; product development; mergers and acquisitions; restructuring; geographic, product or service expansion; new markets or new segments in markets currently served; and/or efficiency and productivity initiatives to grow profits at a faster rate than revenues.

This is also a good section to talk about dividends, stock splits, share repurchases, secondary equity offerings as well as revolving credit facilities or public debt.

IV. Achievements

Dedicate at least one-third of the shareholder letter to the progress you have made on previously stated strategic objectives, initiatives and/or goals. This is a great opportunity to build credibility while linking operating performance with future financial results, which will lead to a better understanding about your company's current challenges and prospects for growth. Include only significant achievements during the year.

V. Changes in Management or Board of Directors

Include a paragraph or two about executive management changes, if applicable. Limit this discussion to executive management positions only.

Include a paragraph or two about Board of Director changes, if applicable. Welcome new board members and express your appreciation for exiting board members.

VI. Outlook

Present the company's strategic objectives, initiatives and/or goals to be achieved in a reasonable time frame. Avoid providing information that could help your competition and only include significant items for which you are confident can be achieved. Be clear about the time frame in order to manage expectations.

This is also an opportunity to discuss industry trends and transitions expected to occur in the marketplace as well as any environmental or regulatory changes that could accelerate or slow the company's progress in achieving the above stated objectives, initiatives and/or goals.

The information presented in this section will represent one-third of your *Letter to Shareholders* next year. You have the opportunity to build credibility

by doing what you said you were going to do in the time frame in which you said you would do it.

VII. Closing

The last paragraph concludes with a customer statement along with the reasons why your company is prepared to meet the changing needs of the markets it serves. Thank employees for their continued support and validate shareholders' continued interest in your company. As an example:

In closing, I want to thank the 00,000 employees whose creativity, hard work and customer dedication have made this year's achievements possible. Our strong connection with customers continues to be a key asset in an increasingly competitive marketplace. While the economy remains challenging, we are well prepared to meet customers' changing needs, pursue continued growth and maximize shareholder value.

VIII. Final Note on Formatting

Paragraphs should consist of approximately 70 words or less. Please remember that more detailed information is available in the Management Discussion and Analysis section. Rather than presenting lengthy explanations in the *Letter to Shareholders*, reference the appropriate section in the MD&A for more information.

Subheads are helpful and graphs providing three or five-year views are even better to move readers through the entire letter.

Do not forget to date the letter. It is a point of reference in case an unexpected event occurs after the *Letter to Shareholders* is published which would change your outlook for the following year.