

ESTTA Tracking number: **ESTTA569222**

Filing date: **11/05/2013**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91204777
Party	Plaintiff Apple Inc.
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Date	11/05/2013
Attachments	NOR-5.pdf(107344 bytes ) EXHS. TO NOR-5.pdf(4786445 bytes )

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In the Matter of Application Serial No. **85/379,097**  
 For the mark: **CRAPPLE**  
 Filed: July 22, 2011  
 Published: December 20, 2011

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APPLE INC.,	:	
	:	Opposition No. 91204777
Opposer,	:	
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HOLDINGS, LLC,	:	
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Applicant.	:	
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**OPPOSER’S FIFTH NOTICE OF RELIANCE**

Opposer Apple Inc. (“Apple”), pursuant to 37 C.F.R. §§ 2.122(e), submits of record in connection with this opposition proceeding a representative sample of unsolicited print publications available to the general public in libraries and/or on the NEXIS database or of general circulation among members of the public and/or that segment of the public that is relevant to the issues in this proceeding.

This evidence is relevant to show, among other things, the fame of Apple’s marks, the specific recognition of Apple by the public, media, and industry as one of the most valuable brands, and the widespread recognition of Apple’s brand and marks by the relevant general public.

EXHIBIT	PUBLICATION DATE	PUBLICATION NAME - ARTICLE TITLE (SUMMARY OR RELEVANT QUOTE)
A	November 1, 2001	Wall Street Journal - <b>Apple Brings Its Flair For Smart Designs To Digital</b>

		<b>Music Player</b>
B	November 17, 2003	Time Magazine - <b>The 99[cents] Solution; Steve Jobs' new Music Store showed foot-dragging record labels and freeloading music pirates that there is a third way</b> ("... Apple's iTunes Music Store is TIME's Coolest Invention of 2003.")
C	February 2, 2004	Business Week - <b>SHOW TIME!</b> ("Just as the Mac revolutionized the computer industry, Apple is once again in the business of changing the world. This time, it's the world of music.")
D	April 5, 2004	Business Week - <b>The Best Performers</b> (indicating that Apple Computer had the ninth-largest percent increase in earnings among companies in the Standard and Poor's 500 index in 2003)
E	July 26, 2004	Newsweek - <b>iPod Nation</b> ("In just three years, Apple's adorable mini music player has gone from gizmo to life-changing cultural icon.")
F	January 12, 2005	USA Today - <b>Apple strikes while the iPod is hot</b> ("Smash sales of Apple's iPod digital music player – 10 million since 2001 and 8.2 million in 2004 alone – have transformed the company. Its retail stores, for instance, are huge hits.")
G	February 1, 2005	USA Today - <b>In iPod America, legions in tune</b> ("“This is no fad – the iPod has changed my life.’ . . . Rival MP3 makers hoping to chase down Apple's runaway hit have their work cut out: Maverick CEO Steve Jobs has his foot to the company's floorboard.”)
H	April 3, 2006	Business Week - <b>The Best Performers 2006</b> (valuing Apple Computer Inc. as the best performing company among companies in the Standard and Poor's 500 index)

I	April 24, 2006	Business Week - <b>The World's Most Innovative Companies</b> (calling Apple Computer Inc. "the creative king" and ranking Apple as the most innovative company in the world; "To launch the iPod . . . Apple used no fewer than seven types of innovation.")
J	September 15, 2006	Marketing News - <b>A few of our favorite things</b> (indicating Apple Computer's ranking as the tenth most highly regarded brand among U.S. consumers, according to a poll by Harris Interactive, Inc.)
K	February 2, 2007	Server IQ.com - <b>Survey: Microsoft's Corporate Reputation Ranks Supreme</b> (indicating Apple's place as the 22 <sup>nd</sup> -ranked company in terms of corporate reputation, according to a survey released by Harris Interactive)
L	March 19, 2007	Fortune - <b>The World's Most Admired Companies</b> (noting Apple's "meteoric rise" to its ranking as the fifth most admired company in the world)
M	March 26, 2007	Business Week - <b>The 2007 Best Performers</b> (valuing Apple as the 34th-best performing company among companies in the Standard and Poor's 500 index)
N	May 14, 2007	Business Week - <b>The World's 25 Most Innovative Companies</b> (“Not surprisingly, Apple and Google once again prevailed.”)
O	August 13, 2007	MMR (Mass Market Retailer) - <b>Harris says Coca-Cola is No. 1 brand</b> (indicating Apple's place as the ninth-ranked "best brand" among consumers according to the Harris Poll)
P	March 17, 2008	Fortune - <b>America's Most Admired Companies</b> (“It's an impressive hat trick: Apple not only takes the No. 1 slot on this year's list of America's Most Admired Companies but also tops the global survey and wins the highest marks for innovation too.”)

Q	March 17, 2008	Fortune - <b>What Makes Apple Golden</b> ("... Apple ... has set the gold standard for corporate America with an entirely new business model: creating a brand, morphing it, and reincarnating it to thrive in a disruptive age.")
R	April 23, 2008	Wall Street Journal - <b>Slow Slog for Amazon's Digital Media -- Earnings Today May Provide Data On What Works</b> ("Apple's iTunes, which has more than 80% of the U.S. market for digital-music downloads, is now the top-ranked music retailer in the U.S., selling more than four billion songs since its launch in April 2003.")
S	April 28, 2008	Business Week - <b>25 Most Innovative Companies: Smart Ideas for Tough Times</b> (ranking "three-time winner" Apple as the most innovative company in the world)
T	March 16, 2009	Fortune - <b>The World's Most Admired Companies 2009</b> (ranking Apple as the world's most admired company)
U	March 22, 2010	Fortune - <b>The World's Most Admired Companies 2010</b> (ranking Apple as the world's most admired company for the second year in a row)

Respectfully submitted,

Dated: November 5, 2013

**KILPATRICK TOWNSEND & STOCKTON LLP**

By: /s/Allison Scott Roach

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**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been served on Ninja Entertainment Holdings, LLC by depositing a copy with the United States Postal Service as First Class Mail, postage prepaid, in an envelope addressed to:

Daniel Kelman  
1934 Josephine Street  
Pittsburgh, Pennsylvania 15203

This the 5th day of November, 2013.

\_\_\_\_\_  
/s/ Alberto Garcia  
Alberto Garcia

# **EXHIBIT A**



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## Dow Jones Factiva

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### THE WALL STREET JOURNAL

The Wall Street Journal

November 1, 2001 Thursday

**SECTION:** PERSONAL TECHNOLOGY; Pg. B1

**LENGTH:** 855 words

**HEADLINE:** Apple Brings Its Flair For Smart Designs To Digital Music Player

**BYLINE:** By Walter S. Mossberg

**BODY:**

PORTABLE DIGITAL MUSIC players are frustrating gadgets. These hand-held devices, which play songs in the MP3 format, seem like a great idea, but they are hobbled by major drawbacks.

Some can hold only a scant 10-20 songs on little memory cards too expensive to buy in quantity. Others include built-in hard disks that can hold hundreds or thousands of songs, but are large and bulky with lousy battery life.

For the past 10 days or so, however, I've been testing a terrific digital music player that solves all of these problems. It has massive storage capacity, is small and light enough to slip into a pocket and can be run nonstop for an impressive amount of time. Its controls are simple and clear, and it downloads music from a computer at blazing speeds.

It's no surprise that this new music player, called the iPod, comes from a company with a long history of great engineering and user-oriented design: Apple Computer. This is Apple's first noncomputer product in years, and it's a design home run. The iPod is simply the best digital music player I've seen. It costs \$399, and will be available Nov. 10.

The one serious drawback of the iPod is that, at the moment, it only works with Apple's own Macintosh computers. To fill it with music, you must use Apple's latest Mac-only jukebox software: iTunes 2. You also need an ultrafast FireWire port, which all Macs have. FireWire also exists in the Windows world, where it's usually called "1394," but relatively few Windows PCs include the port.

THAT SHOULD CHANGE soon. While Apple is being coy about it, I expect the company to produce a Windows version of the iPod by next spring. And if the iPod succeeds, I expect it to be just the first in a new line of noncomputer products from Apple.

Apple Brings Its Flair For Smart Designs To Digital Music Player The Wall Street Journal November 1, 2001 Thursday

The iPod is about the size of a deck of cards, weighs just 6.5 ounces and sports a clean, simple white front with a roomy screen and a circular button array. The back of the unit is stainless steel.

Inside is a nearly silent five gigabyte hard disk and a small but high-capacity battery. Apple makes strong claims for the iPod's storage capacity and battery life, but this is one of those rare products where the manufacturer's claims are actually understated, not overstated.

Apple says the iPod can hold 1,000 songs. But the company is basing that claim on an assumption that iPod users will create MP3s at a higher-than-average quality level, which requires more disk space. My own calculations, based on the lower quality level most commonly used by listeners, shows that the iPod can hold about 1,300 songs, equal to more than 100 typical CDs.

As for battery life, Apple claims 10 hours, but in my tests the iPod repeatedly got nearly 12 hours.

Sound quality is excellent. I tested it with the included earbuds and with larger noise-canceling headphones. I even plugged it into an automobile speaker system using a cheap cassette adapter from Radio Shack. The iPod sounded great in each instance.

The uncluttered, high-resolution screen displays song title, artist and album, assuming your MP3 files contain that information. You navigate through directories of artists, albums, playlists and songs using a wheel on the front of the unit that speeds up when scrolling through long lists.

LIKE MOST OTHER MP3 players, the iPod must get its music from a computer, but it's cleverer and faster at doing so. Most other players connect to a PC using the USB port and require you to manually select which songs you want to transfer. But the iPod uses the far faster FireWire port and automatically synchronizes itself with the music library on the computer, just like a Palm synchronizes with a PC.

A few seconds after you first plug the iPod into the Mac using the FireWire cable, the iTunes 2 software automatically copies its music library, including songs and playlists, onto the device. If you later add or delete songs from the music library on the Mac, the changes will be duplicated on the iPod the next time you plug it in. And this process is fast. I moved 763 songs onto my test iPod in well under 10 minutes. That would have taken hours using a USB connection.

You can turn off synchronization and manually move the songs you like onto the iPod. While the iPod is plugged into the Mac, it's also recharging. You don't need a separate power cable.

If you have room left over on the iPod after transferring your music, you can use it as a portable hard disk, manually copying any computer file to its hard disk to back up files or move them to another Mac.

The only problem I ran into with the iPod was that, in some cases, there can be a long pause between songs. Apple claims this will be less noticeable in shipped iPods than in my test unit.

At \$399, the iPod is also a little expensive. Other hard-disk-based players, like Creative's Nomad, offer about the same capacity for \$100 less, or greater capacity for the same price. But they are inferior designs. All in all, iPod is a great product, and I recommend it to anyone who loves music.

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E-mail me at [mossberg@wsj.com](mailto:mossberg@wsj.com). Read these columns online at <http://ptech.wsj.com>. For answers to your computer questions, see Mossberg's Mailbox.

**NOTES:**

Apple Brings Its Flair For Smart Designs To Digital Music Player The Wall Street Journal November 1, 2001 Thursday

**PUBLISHER:** Dow Jones & Company

**LOAD-DATE:** December 5, 2004

# **EXHIBIT B**



Copyright 2003 Time Inc.  
Time Magazine

November 17, 2003

**SECTION:** TECHNOLOGY/COOLEST INVENTIONS/INVENTION OF THE YEAR; Pg. 66

**LENGTH:** 1090 words

**HEADLINE:** The 99[cents] Solution;  
Steve Jobs' new Music Store showed foot-dragging record labels and freeloading music pirates that there is a third way

**BYLINE:** Chris Taylor

**BODY:**

When Steve Jobs holds forth in public, it's usually to a mob of fawning Apple-ites--the true believers who still develop software and accessories for Apple products. Not so last month at the Moscone Center in San Francisco. This crowd was more mack daddy than Macworld. Bono, Mick Jagger and Dr. Dre made video appearances. Grateful Dead drummer Mickey Hart was in the audience. Sarah McLachlan sang her latest hits live. What was pulling these musical supernovas into Jobs' magnetic field? A software product that just might save their free-falling industry: the iTunes Music Store.

It's a disarmingly simple concept: sell songs in digital format for less than a buck and let buyers play them whenever and wherever they like--as long as it's on an Apple iPod. Jobs had proved the idea back in April when he launched the Music Store for Mac users, who represent only 3% of the computer world but promptly gobbled up a million tracks in the first week of business. By October he was ready to set the Music Store aloft in the 97% of the world that uses Windows PCs, and the prospect of converting millions of music pirates into credit-card wielding music buyers was enough to make even the most jaded rock stars take notice. How did Jobs do this trick? In a word: simplicity--the transparent ease of use that is the hallmark of Apple's entire product line, including the Music Store. "I'm a complete computer dummy," McLachlan told TIME after the event. "If I can use this, anyone can."

And, it seems, just about anyone is. Three days after the Moscone event, PC owners had downloaded a million copies of the software and paid for a million songs (adding to the 14 million music downloads already made by Mac users). In a year when record labels hit a sour note by suing students, grandparents and 12-year-old file sharers, Jobs had effectively brokered a peace agreement: he had shown the music industry how to win friends and turn a profit on the very Internet that was being used to steal their songs.

Other inventions this year may have more altruistic intentions (like Dean Kamen's water purifier) or be more visible on street corners (like those ubiquitous camera cell phones). But for finally finding a middle ground between the foot-dragging record labels and the free-for-all digital pirates and for creating a bandwagon onto which its competitors immediately jumped, Apple's iTunes Music Store is TIME's Coolest Invention of 2003.

Long before the Music Store came on the scene, frantic record-industry executives had been searching for some way to combat their nemesis: Napster, the original file-sharing service, but to no avail. Their first online ventures,

The 99[cents] Solution; Steve Jobs' new Music Store showed foot-dragging record labels and freeloading music pirates that there is a third way Time Magazine November 17, 2003

MusicNet and PressPlay, were disasters, largely because the labels didn't trust their users--or one another. High subscription fees and poor selections turned off would-be customers; most skulked off to the underground services, such as Kazaa and Limewire, which had sprung up after Napster's demise.

Enter Jobs. Back in April, Apple's CEO revealed that he had spent the previous year negotiating an unprecedented deal with all five major labels and thousands of independents. His iTunes software, which had previously been nothing more than a place to store and play digital music on a Mac, would become a gateway to the Music Store, where you could easily find and save music to your hard drive, CD or iPod music player--no subscription necessary, just 99[cents] per song, or \$ 9.99 for an album. Competitors tried to match that price but couldn't come up with a service as free of restrictions. They said Jobs had been given a sweet deal by the labels because Apple, with its minuscule share of the computer market, was never going to be a real distribution threat. "The Mac world is a walled garden," said BuyMusic.com vice president Liz Brooks. "The PC environment is like the Wild West."

Then came iTunes for Windows, and suddenly there was a new sheriff in town. Not content with creating a music store for PC users that was a perfect clone of its Mac counterpart, including all of the 400,000 songs Apple now has the rights to resell, Jobs added a couple of cool new features. The best is a monthly allowance you can set up for your kids to govern their online purchases--a godsend for any parent trying to curb an offspring's downloading habit.

Jobs has another reason not to be concerned about the competition. "The dirty little secret of all this is there's no way to make money on these stores," he says. For every 99[cents] Apple gets from your credit card, 65[cents] goes straight to the music label. Another quarter or so gets eaten up by distribution costs. At most, Jobs is left with a dime per track, so even \$ 500 million in annual sales would add up to a paltry \$ 50 million profit. Why even bother? "Because we're selling iPods," Jobs says, grinning.

That may make iTunes the most benign-looking Trojan horse in software history. The Windows crowd can get iTunes free, and it offers almost all the same functionality as the paid versions of MusicMatch and Real One, two PC-based rivals. But iTunes is the only music application that will work with the enormously popular iPod, and it has features--like its powerful search function--that are unrivaled. "Once people are locked into using iTunes, the game's over," says Charles Wolf, an analyst at the New York City--based Needham & Co. investment bank. "They could sell an extra 2 million iPods because of this." And the margins on these devices make the Music Store's arithmetic look like child's play. Each \$ 499 iPod returns as much as \$ 175 in profit, Wolf says.

Such calculation may also explain why iTunes doesn't support Windows Media Audio files--a Microsoft format that Bill Gates had hoped would become the music-industry standard. If iTunes becomes the player of choice for PC users, it would be a blow for Microsoft's grander audio ambitions--and may well unearth the hatchet that Jobs and Gates buried back in 1997.

For now, Jobs faces some smaller hurdles, like filling in a few significant gaps in the iTunes Music Store selection (the Beatles are the most glaring omission). Even so, Jobs continues to score points with consumers for making available songs so easy to find and so easy to download. The music industry, of course, is anything but simple. That's probably why Jobs, an inveterate challenge seeker, likes it. But can it grow his business? Stay tuned.

**GRAPHIC: COLOR ILLUSTRATION: ILLUSTRATION FOR TIME BY ULLA PUGGAARD, COLOR PHOTO: MICHAEL O'NEILL**

**LOAD-DATE: November 10, 2003**

# **EXHIBIT C**



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## BusinessWeek

Business Week

February 2, 2004

**SECTION:** COVER STORY; Number 3868; Pg. 56

**LENGTH:** 4419 words

**HEADLINE:** SHOW TIME!

**BYLINE:** By Peter Burrows; With Ronald Grover in Los Angeles, Tom Lowry in New York, and bureau reports

**HIGHLIGHT:**

Just as the Mac revolutionized computing, Apple is changing the world of online music. If Steve Jobs plays his cards right this time, Apple could end up with a big chunk of the digital-entertainment market

**BODY:**

On Jan. 6, San Francisco's Moscone convention center pulses with all the energy of a rock concert. A crowd sprinkled with hip-hop teenagers, digerati, and aging hippies streams in to hear the annual state-of-the-Mac keynote from Apple Computer Inc. Chief Executive Steven P. Jobs.

Every facet of the event bears the fingerprints of the obsessive Jobs -- right down to the music that fills the air. This year, it's the King himself, Elvis Presley. Later, Jobs rolls the tape of Apple's famous "1984" ad that ran on Super Bowl Sunday that year -- and hasn't been broadcast since. Only this version has been digitally enhanced. The ad's hammer-throwing heroine crashes a meeting of Orwellian automatons and smashes Big Brother to smithereens, just like before. But this time, she's sporting a new accessory on her hip: one of Apple's hot-selling iPod digital music players. "It's the 20th anniversary of the original Mac, and we're going to make something of it," says Jobs after the cheers subside.

The message is clear: Just as the Mac revolutionized the computer industry, Apple is once again in the business of changing the world. This time, it's the world of music. Its diminutive iPod, which can store 10,000 songs in a device smaller than a deck of cards, is the most radical change in how people listen to music since Sony Corp. introduced the Walkman in 1979. Then there's Apple's online music store, iTunes. It was established only after Jobs became the first person to persuade all the major record labels to make their music available -- legally -- on one Web site. Since late April, 30 million songs have been downloaded from Apple's store, and the trend may one day spell the end of the compact disk. "[Jobs] is a real visionary, the kind who can change industries," says Jimmy Iovine, chairman of Interscope Geffen A&M Records, a unit of Universal Music Group.

That's industries, plural. Over in Emeryville, Calif., 50 miles from Apple's Cupertino headquarters, Jobs's other

company, Pixar Animation Studios, is turning the movie business on its ear. The company's latest flick, *Finding Nemo*, was the No. 1 box-office hit of 2003 and roared past Walt Disney Co.'s *The Lion King* as the highest-grossing animated hit of all time. That gives Pixar an unprecedented five blockbusters in five tries. (Remember *Toy Story* and *Monsters, Inc.*?) And it gives Jobs tremendous leverage as he renegotiates Pixar's contract with embattled Magic Kingdom boss Michael D. Eisner. For the past nine months, Jobs has been pressing Disney for a bigger cut of the profits from its films -- and perhaps much more. With Eisner on the hot seat, Jobs is likely to get much of what he wants.

Add it up, and this may be just the beginning of a brand new Steve Show. For years, Jobs's perfectionist approach to product development has been experienced only by Mac users. But now, massive changes are roiling the worlds of entertainment, computing, and communications, giving him a broader stage. Increasingly, content -- that magical lifeblood of movie studios, record labels, and publishers -- is being transformed into digital form. At the same time, the Internet and wireless networks are evolving to deliver those bits almost anywhere, at speeds never before possible. Couple all that with disk drives, semiconductors, and high-resolution displays that are growing ever smaller and more powerful, and technology is liberating entertainment from its past. How we watch movies, look at photos, listen to music, even read a book promises to change profoundly in the next decade.

No one may have a better chance to make order out of this chaos -- and then profit from it -- than Jobs. He bridges the marketplace: He has a hand in the worlds of computing, music, and movies to see how they're evolving. He has the track record with consumers: His string of hits includes the original Mac, the candy-colored iMac, and the iPod. He has the pieces: Apple not only has a combination of software and hardware skills unique in the PC business, it also has strong product design and one of the world's best-known brands. And he has the silver tongue: When the record companies had dug in their heels against the Net in Napster-induced terror, it was Jobs who persuaded all the major labels to put their music on iTunes. "Steve's the right guy with the right style at the right moment," says management consultant Geoffrey A. Moore, president of Chasm Group LLC and author of the technology-marketing text *Crossing the Chasm*.

If he doesn't blow it, that is. Jobs can be so enamored of his own vision -- and so bull-headed about pursuing it -- that it has blinded him at times. In 2000, fresh off the success of the trend-setting iMac, he personally ordered up a glistening cube-shaped Mac that carried a sky-high price tag in part because of a fanless design that eliminated that annoying hum. Customers, it turned out, weren't willing to pay for noiseless good looks, and the product was pulled off the market in a matter of months. Such missteps could cost him dearly in the battle ahead.

**Retail Payoff** While consumer-electronics giants develop scores of products at once and endure a few flops, Jobs's hands-on approach means Apple can focus on only one or two brand-new projects at a time. "Apple's problem is that it's just a blip by consumer-electronics measures," says consultant Paul Saffo, research director at Institute for the Future. "It's too big to play the Bang & Olufsen angle, but it's just a blip next to Sony or Samsung. That's a really awkward place to be."

One advantage Apple has over rivals is its retail stores, which give customers first-hand experience with the company's new products. In 2001, when the entire PC industry was bent on boosting online sales to reduce costs, Jobs went the opposite way. He started opening swanky retail stores, now numbering 74, in high-rent locations such as Chicago's Magnificent Mile and the Ginza district in Tokyo. Products are displayed on uncluttered maple tables, so shoppers can comfortably try things they may have never done on a computer before, like create a home movie. Mac-savvy salespeople wait at a "Genius Bar" to answer questions, but don't hover. The stores, which turned profitable in 2003's third quarter, also offer hundreds of classes in filmmaking, graphic design, and more. "I love the store," says Tanika Goudeu, a 26-year-old documentary filmmaker visiting the location in New York's SoHo on a recent January afternoon.

What new fare will shoppers find in those stores in the years to come? Near term, an iPod for viewing digital photos would need nothing more than a color screen. Then, with its design skills, Apple could create a compact entertainment hub for the living room. That could eliminate the usual mess of DVD players, stereos, music CDs, and

remote controls, and loaded with Apple's successful iLife software suite, the hub could be used for managing digital photos or watching home movies. A musician could even use it, loaded with Apple's new GarageBand music software, to create a backup band while playing lead on the family piano. Such a device might appeal to youngsters who've grown up digital -- interacting with technology rather than just watching it. Jobs won't comment on such opportunities, except to warn of the difficulty of creating products people really want to use. "I'm not saying we're not going to do these things. I'm just saying they are a lot more complicated than they look."

Imaginary Key That goes for watching movies, too. If Jobs and his movie pals one day adopt online distribution of films, it's easy to imagine an iTunes-like store for downloading them. Asked if such talks are in the works, he smiles and turns an imaginary key in front of his mouth. Still, he doesn't deny Apple has many paths to explore. "There's no company in the world that's better at making complex technology simple," he says. "That's Apple's primary skill, and it's a skill that has never been more valuable."

All this may be causing Jobs to rethink Apple in fundamental ways. For years, his growth plan was to gain a percentage point of PC market share each year. Now, the iPod shows there may be a better way: milk those loyal Mac fans for profits, and pioneer new markets to bring in new customers. "If our [PC] market share grows, we're thrilled," says Jobs. But with the iPod, "we're finally getting to compete without our 5% market-share ceiling, and look what's happening: We're winning." Merrill Lynch & Co. estimates that the company's revenues will rise 23% in fiscal 2004, to \$ 7.6 billion, as net income more than doubles, to \$ 185 million. Half of that revenue growth is expected to come from music as iPod sales nearly triple, to \$ 931 million, and iTunes's sales boom tenfold, to \$ 220 million. "They're better positioned today than they've been in a long time," says Merrill analyst Steven Milunovich. "Despite its up-and-down track record, we're confident Apple can stay at the leading edge of innovation."

Still, a stampede of competitors will be trying to elbow their way past Apple. Sony, though struggling of late, still dwarfs Apple with an expected \$ 66 billion in revenues this year. Korea's Samsung Electronics Co., a fast-rising force in everything from cell phones to high-definition TVs, says it will spend more on capital investment this year than Apple's revenues. Even networking giant Cisco Systems Inc., not known for its consumer savvy, has gotten into the market with sophisticated wireless products for zapping video and music around the home. The giants are dismissive of Jobs and Apple. "They're a one-trick pony," says Hideki "Dick" Komiyama, president of Sony Electronics Inc.

There are many who think Jobs won't even be able to hold on to his lead in music. Skeptics note that he's up against the same crew of companies that trounced Apple in PCs, as well as an army of newcomers, including Wal-Mart Stores and Virgin Entertainment Group. Microsoft Corp. is providing the software for more than 60 digital music players, and Dell, Samsung, and others are building the hardware. "It doesn't take a genius to see what comes next: lower prices for consumers and lower market share for Apple," says Chris Gorog, CEO of Roxio Inc., which operates a rival music service under the Napster brand name. "Steve Jobs is right back to the Mac model."

That is a serious risk. Some 20 years ago, Apple leaped ahead in PCs and then blew its lead because it insisted on too much control over its products. While other PC makers used Microsoft software and only made hardware, Apple opted to make the Macintosh operating system itself -- and refused to license the software to cloners who might have helped it hold share against a united front. Forced to maintain high prices to pay for its marketing and research, Apple managed its way into a tiny niche.

This time, Jobs has changed his tactics -- but only partially. He made the iPod and iTunes work with Windows PCs and cut a deal for Hewlett-Packard Co. to resell the music player under the HP brand. Still, he continues to use proprietary software in his music products to insulate Apple from direct competition. That means the iPod won't work with any download site other than iTunes, and iTunes won't work with any music player other than iPod. "Apple's world is a good world, but it's a closed world. Choice is important," says Dave Fester, general manager of Microsoft's Windows digital-media unit. Jeff Hastings, president of rival portable-player maker Rio Audio, is even more critical: "At the end of the day, it's about how big your ego is. If you believe you're going to own the category, you can try to have the complete solution."

Some have argued that Jobs should license the software inside the iPod or its design so that it can become the Microsoft of music players, but that probably won't work. The little-known truth is that Apple doesn't own much of the technology inside the iPod. A small company called PortalPlayer Inc., for example, makes the key chip and some of the underlying software. Apple did plenty of innovation, including the industrial design, the wheel interface, and the synchronization with iTunes. But it would be difficult to license these contributions on their own, and they probably wouldn't command very high royalties.

Jobs insists Apple is better off keeping its technology to itself. "We can invent a complete solution that works and take responsibility for it," he says. "It will be very interesting when one of these other portable-music players starts to leak music [so it can be shared freely with others]. The music companies will get upset and point their fingers at Microsoft, and Microsoft will point their fingers at the hardware company. Apple can take responsibility for the entire solution."

The challenge for Apple, then, comes down to innovation and design. Can it make products that are so much better than rivals' that it can command a premium and keep its market-share lead? Jobs seems capable of pulling it off. Despite the onslaught of competition, Apple's share of the portable music-player market rose last year, from 24% to 25%, says market researcher IDC. Apple's iPod mini, a \$ 249 player introduced on Jan. 6, is a lower-priced version of its current hit. And its deal with HP signals a more aggressive approach to grabbing control of the music market. While Apple may lose some share over the next few years, it should remain the market leader. "The iPod is on the verge of becoming a verb, like TiVo," says market researcher Mike McGuire of GartnerG2. "It's really hard to unseat that."

Apple's success in the music biz began with an oversight. In the late '90s, when students were starting to burn CDs of their favorite tunes, Macs didn't have CD burners. Realizing the mistake, Jobs ordered Apple's developers to create the iTunes program to help customers manage their growing PC music collections. That led to the concept of the iPod. If people were going to maintain the bulk of their music on their PCs, they'd want a portable device to take it with them. Such devices already existed, but most could hold only a few dozen songs.

**Pulling the Pieces Together** That's when Apple's creative DNA kicked in. Scouring the market for the necessary components, Apple found that PortalPlayer had technology that could serve as the guts of the device. It also learned that Toshiba Corp. was building a tiny, 1.8-inch disk drive that could hold thousands of songs. Other manufacturers had balked at the high price, but not Apple. Instead, it quickly cut an exclusive deal for the drives, giving itself an 18-month head start on the competition in high-capacity music players. Meanwhile, Apple's engineers poured their time into designing the user interface, the elegant exterior, and on making it simple to synch up song libraries from the Mac.

When it was unveiled in October, 2001, the iPod drew mixed reviews. The price was so high, \$ 399, that critics joked the product's name stood for "idiots price our devices." But iPods flew off the shelves. Brisk sales pushed Jobs to make a wrenching decision. After years of doing battle with Windows PCs, he decided that Apple should make the iPod work with enemy machines. The call paid off. Sales surged after the Windows-compatible iPod came out in mid-2002.

That's when Jobs set his mind to tackling an even bigger problem: persuading the major music companies to make their music available for legal downloads. For years, the record labels focused more on squelching song-swapping on free sites such as Napster than on building a legal download business. But Jobs argued that 80% of consumers would pay for music downloads if there were a simple, affordable way to do so. By mid-2002, Apple was moving ahead with a prototype to do just that.

A key meeting occurred in the fall, when Warner Music Group Chairman Roger Ames traveled to Cupertino to interest Jobs in a super-secure new kind of CD. After a few minutes of discussion about the CD, Jobs gave Ames an early demo of the iTunes store. Jobs laid out his 99 cents-per-song pricing scheme and said that all the labels would have to be involved for it to work. While Ames wasn't ready to sign on, he and Jobs continued to meet in New York and Cupertino. One important step, Ames says, came when the two debated why radio developed so much more extensively in the U.S. than in Britain. Jobs said it was because there are no fees attached to U.S. radio. The argument resonated

with Ames, convincing him that fewer restrictions on downloaded music would help sales. He also began to build trust in Jobs. As head of Pixar, "here [was] a guy who obviously knows a great deal about what it means to artists to protect their works from being ripped off," says Ames. "This was the right person for us to be in business with."

So Ames urged rivals such as Universal Music's Iovine to take a look. Iovine says he was "blown away. This guy had been doing serious thinking while we were all batting our heads against a wall." Jobs also met with 20 top artists, including Bono, Sheryl Crow, and Mick Jagger. "So many artists were on the fence about the digital world," says Island Def Jam Music Group's Lyor Cohen. "It really showed his determination to make this happen."

Within days of iTunes's unveiling last April, it was clear that Jobs had a hit on his hands. A million songs were sold the first week. "We've shown there's a way out of this mess, that there's a legal alternative consumers can use that's better than stealing online," says Jobs.

Apple is going to get major help in keeping its lead in music over the next few months. The deal with HP will put iTunes software on 9 million PCs a year and put the marketing muscle of HP behind iPod sales. America Online Inc. just made iTunes the exclusive music store for its 26 million subscribers. And on Feb. 1, Pepsi-Cola North America will run a Super Bowl ad publicizing a 100-million-song iTunes giveaway.

Are Movies Next? Jobs bristles at the notion that Apple's lead is in danger. "It's kind of insulting, actually," he says. "The suggestion is that we stumbled into this thing. When are we going to get some credit?" He notes that the Mac's peak in the U.S. was about 16% market share. That's far less than the iPod and miles less than iTunes, which has 70% of music downloads. What's more, Apple's rivals are fighting among themselves, so it's not mano a mano with mighty Microsoft. Microsoft is pushing one standard, RealNetworks is pushing another, and Sony is supporting a third (page 64). That's giving Jobs the opportunity to expand his market and make his technology the standard for digital music. "Over half the iPods we sell are being used with Windows PCs, and it has been that way for a while," Jobs says.

There's more Apple can do. It could cut wholesale deals for its iPods, similar to the one with HP, with other companies. That would put more marketing oomph behind the iPod while taking potential rivals out of the market. Jobs won't comment on the possibility. What if rivals begin taking share? Apple could field a much cheaper model by introducing a player based on flash memory, which costs less and has a lower capacity than a hard drive. A more radical step would be to load Microsoft's software onto the iPod in addition to Apple's so it could play music from sites other than iTunes. That would give comfort to people who like the iPod but want to buy music from, say, the 88 cents-a-song Wal-Mart site, which uses Microsoft's software.

The bigger challenge is what comes after the iPod. That's where Pixar may come in. Though Jobs dismisses talk of synergies between Apple and Pixar, it's a safe bet that he is thinking about them as he negotiates Pixar's new deal with Disney. The main debate is over more obvious topics: Pixar wants to boost the roughly 37% of profits it now clears on its films after Disney has taken its 50% share plus a distribution fee. But Jobs could be pushing for more unusual terms. What if Pixar asked for exclusive rights to offer digital downloads of its films? If Apple ever created an iMovie site, such flicks would be a powerful draw. Jobs has another advantage: Apple already has the most popular site for watching movie trailers on the Web.

Setting up a movie-download site would be no easy feat, as Jobs readily concedes. For starters, five major studios -- Universal Pictures, MGM, Warner Bros., Sony, and Paramount Pictures -- opened their own site, Movielink, in 2002. And Movielink, which charges \$ 4.99 for its newest releases, hasn't caught on. That's because downloading an entire movie is slow and there are plenty of other ways to see movies now, from rentals to pay-per-view. "Hollywood is much more mature than the music business in terms of distribution," says Jobs.

Could Jobs work his way around such obstacles? Maybe. Before he founded iTunes, the major record companies had their own music-download sites, with a hodgepodge of copy-protection technology. What Jobs did was cut deals with all the majors so customers could go to one place for all their music -- with standardized, reasonable copy

protection. It's possible he could work out a similar deal for movies. "You never want to say never when it comes to Steve Jobs," says a top Hollywood exec. "He could come to us tomorrow and say: 'I've got it all figured out.'"

Jobs's resurgence is, in some ways, like a Pixar script -- full of lessons and redemption. A dozen years ago, he was the washed-up former CEO of Apple, the enfant terrible of tech with little hope of doing anything of consequence again. Now, he's hailed for changing the world of music -- and has the opportunity to do much more. For this drama to have a happy ending, Jobs will have to play his role perfectly.

#### Steve Jobs's Multiplex

From his iPod music player to his Pixar movies, Jobs has been a pioneer in digital entertainment. Here's the scope of his influence today and how it may grow as the worlds of movies, music, and computing merge:

##### MUSIC

Today: With the iTunes Music Store and \$300-plus iPod, Jobs reigns over digital music. Apple sold 730,000 iPods last quarter, making it the No. 1 player. iTunes isn't profitable, but it's key to iPod's allure: 30 million songs have been sold in 7 months. Now Jobs has the \$249 iPod mini and a deal with Hewlett-Packard to sell iPods and load iTunes onto millions of HP PCs.

Prospects: More challenging days lie ahead. Rivals from Dell to Wal-Mart are tumbling into the market. The iPod will lose share over the next two years as rivals drop their prices and improve their products. Still, Apple should remain the largest player, especially if it adds more HP-like deals.

##### MOVIES

Today: Jobs's Pixar Animation Studios revolutionized animated film with five blockbusters in five tries. Apple also owns the No. 1 free on-line movie-trailer service.

Prospects: Is an iTunes and iPod for movies next? Jobs is mum. But as head of the world's hottest movie studio, with contacts and knowledge of how Hollywood works, he'll have a leading role as films follow music into on-line distribution.

##### HOME-ENTERTAINMENT HUB

Today: Apple's \$49 iLife software suite lets you manage digital photos, edit home movies, and for wannabe rockers, mix music. Add Apple's Airport and Rendezvous wireless-networking technologies, and linking digital devices around the home becomes a snap.

Prospects: Apple only makes iLife available for the Mac, a relatively small audience. But if it incorporates the software into home-entertainment products that work with LCD or plasma TVs, people could view their photos or home movies in the den.

##### DESKTOP COMPUTERS

Today: Most people acknowledge the Mac's superior design and technology, yet Apple has just 3% of the global computer market and has lost its grip on education. Still, Jobs has stopped the slide by emphasizing portables.

Prospects: Better than in the past. Mac customers remain loyal, and Jobs hopes the iPod lures new buyers. Apple claims it's gaining share in home desktops in areas with an Apple store.

##### RETAIL SHOPS

Today: Apple's 74 stores turned profitable in the third quarter, 30 months after the first opened. Apple is boosting sales through special events. At the

## SHOW TIME! Business Week February 2, 2004

New York store, new rock acts give free concerts and Apple has offered 300 classes in everything from filmmaking to digital photography.

Prospects: This is a high-wire act. Apple plans to spend \$85 million this year to open eight new stores. But if Jobs doesn't keep the hits coming, the stores could quickly become a massive financial burden.

Will Jobs Get It Right This Time?

Macs: What Went Wrong

## RELUCTANT LICENSING

Apple refused to license its operating-system technology, leaving it isolated against a united front including Microsoft, Intel, IBM, and Dell.

## HIGH PRICING

With no one to share research and development and marketing costs, Apple has always had to charge a premium for its products, which limited it to a small base of dedicated customers.

## NO HANDHELD

Apple pioneered the personal digital assistant with its Newton in 1993. But the company lost out on the chance to be a player in that market when Jobs returned and killed the technology in 1998.

Apple's Share of the Worldwide PC Market

1984 (The first Mac is introduced): 9.4%

1993: 9.4%

2003: 1.8%

Data: IDC, Gartner Inc.

iPods: What Went Right

## EARLY INNOVATION

The iPod's elegant design and hefty hard drive made it the market leader. Then Jobs persuaded the major music outfits to sell songs online for 99 cents each, creating even more demand for iPods.

## WINDOWS OUTREACH

In 2002, Jobs made an iPod that could be used with Windows -- a first in his career. He topped that last year by introducing a version of the iTunes Music Store that works with Windows PCs.

## TECH PARTNERSHIPS

In January, Apple inked a deal to let home PC giant Hewlett-Packard resell iPods -- thereby turning a potential rival with huge marketing and distribution might into a partner.

Apple's Share of the Music Player Market

(Includes players with hard drives or flash memory)

2001: 0%

2002: 24%

2003: 25%

URL: <http://www.businessweek.com/index.html>

**GRAPHIC:** Photograph: ONSTAGE: JOBS ADDRESSES THE CHEERING CROWD AT MACWORLD PHOTOGRAPH BY JOHN GREEN/SANTA MARIA TIMES/ZUMA PRESS ; Photograph: LOOK AND FEEL: THE RETAIL STORES INVITE SHOPPERS TO TRY THINGS THE APPLE WAY PHOTOGRAPH BY JENNIFER S. ALTMAN ; Photograph: COUP: THE PACT WITH HP CHIEF CARLY FIORINA GIVES APPLE A WIDER REACH PHOTOGRAPH BY MICHELE ASSELIN/CORBIS OUTLINE ; Photograph: PIXAR PEAK: EISNER, PIXAR CREATIVE CHIEF JOHN LASSETER, AND JOBS PHOTOGRAPH BY CHRIS DELMAS/ZUMA PRESS

**LOAD-DATE:** January 29, 2004

# **EXHIBIT D**



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**BusinessWeek**

Business Week

April 5, 2004

Correction Appended

**SECTION:** THE BUSINESSWEEK FIFTY; Number 3877; Pg. 78

**LENGTH:** 5196 words

**HEADLINE:** The Best Performers

**BYLINE:** By Dean Foust in Atlanta, with Fred Katzenberg in New York, Brian Grow in Atlanta, Joseph Weber and Michael Arndt in Chicago, Amy Barrett in Philadelphia, and bureau reports

**HIGHLIGHT:**

It helps to be in the right market at the right time, but it certainly doesn't guarantee a spot in the BusinessWeek 50. The companies on this year's list rose above their rivals, often by learning to think like their customers customers

**BODY:**

Historically, auto insurers were never known as a customer-friendly bunch. Then came Progressive Corp. The Mayfield Village (Ohio)-based insurer first turned heads in the 1990s by giving prospective customers price quotes from up to three rival insurers, as well as its own -- a provocative move that won thousands of new accounts. Progressive further endeared itself to drivers by mobilizing an army of 12,000 claims adjusters who sped straight to an accident scene -- and often cut a check right on the spot.

For some insurers, that might be enough. But Progressive has never stopped trying to find ways to do things better, faster, and cheaper for its 12 million customers. "When you stop evolving, you've got a real problem," says Progressive's chief executive, Glenn M. Renwick. "We're always asking, 'Is there an even better way?'" So last April, the \$ 11.9 billion insurer rolled out a new service that lets drivers involved in a small accident drop off their banged-up car, pick up a rental -- and then come back to a fully repaired car a couple days later. So far, Progressive's bold gambits have paid off big: While other parts of the industry are just pulling out of a funk, Progressive's profits have soared an average annual 183% over the past three years, to \$ 1.3 billion in 2003. That, along with strong revenue gains and a robust 152% return on its stock since 2001, has enabled Progressive to claim the top spot in the 2004 BusinessWeek 50.

Progressive epitomizes the spirit found among the companies in the magazine's eighth annual ranking of the best-performing members of the Standard & Poor's 500-stock index. Granted, our list is dominated by companies that were well-positioned to profit from the economic recovery -- health-care outfits, homebuilders, and resurgent technology companies, as well as retailers that have benefited from the resilience of the American consumer. "On one level, it's pretty remarkable how well the [BW50] reflects the broader macroeconomic trends," says Adrian J. Slywotzky, a managing director at Mercer Management Consulting Inc. But scratch beneath the surface, and you'll find something more -- namely, that many of this year's stars have a deeper understanding than rivals of what makes their customers tick.

The Class of '04 ranges from companies like Lowe's Cos. (No. 9), which sensed the importance of marketing its home-improvement wares to the women who actually make the majority of home renovation decisions, to Dell (No. 16), which has built a cult following among corporate information technology managers for its low prices, certainly, but also for providing customers with the data to better understand their own purchasing and usage patterns. And at a time when many corporate managers complain that they have no pricing power -- a symptom of weak brands -- this year's BW50 also includes a number of power brands like eBay (No. 13), Starbucks (No. 25), and Harley-Davidson (No. 43) that aren't so much selling products as they're selling lifestyle choices for consumers worldwide.

The Quest for the Best WHEN THESE COMPANIES expand, it's less through debt-financed acquisitions than through well-planned diversifications around their core business. Consider the success that 3M Co. (No. 47) is enjoying after finding new applications for some of the optic films that it developed back in the 1960s. While the technology was originally developed for use in overhead projectors, 3M's scientists have modernized it to create clearer and brighter pictures in the LCD screens used in everything from mobile phones to TVs. These companies "have learned that it's easier to grow using an electron microscope than a telescope," says Chris Zook, head of management consultant Bain & Co.'s worldwide strategy practice. Brand extensions will take you only so far, though. Some of this year's BW50 companies have consistently demonstrated an ability to cut costs and boost productivity by reengineering the ways they do business.

Unlike other lists, the BusinessWeek 50 is not an exercise in tracking which companies are the biggest or have the hottest stocks. Rather, we built the BW50 to distinguish the largest companies that can go the distance with strong operating and market performances. To determine the winners, we run a proprietary screen that's designed to measure growth in revenues, profits, and returns to shareholders, and to do so over both one- and three-year periods (page 92). We also examine net margins to see which companies are wringing the biggest efficiencies out of their operations, and we analyze debt levels to make sure companies aren't simply buying their growth through debt-financed acquisitions. And to level the playing field for larger companies -- which would have a hard time matching the percentage gains of their smaller brethren -- we weight the results in favor of sales volume. The result: a ranking of companies that symbolize the best in Corporate America, both in operational performance and in their ability to convert that success into lucrative gains for shareholders.

Changing of the Guard BUT IF THERE'S ONE constant in the BusinessWeek 50 over the years, it has been the amount of turnover. In part, that reflects recent roller coaster-like swings in sectors such as energy, tech, telecom, and retailing. Altogether, only 20 companies from the Class of '03 are

making a repeat appearance on the 2004 roster. Of the 30 newcomers, two of this year's best performers, Symantec Corp. (No. 15) and Express Scripts Inc. (No. 42), were added to the S&P 500 during the past year. Of the other companies, there's no mistaking the importance of catering to customers: The BW50 includes three homebuilders and eight retailers -- the most merchants in BW50 history. Reflecting the resurgence of Silicon Valley, six technology companies made the list, vs. three last year. That's still a far cry from 1997, when our inaugural ranking was dominated by 12 tech companies, including the top four: Intel (which rejoins the list this year after a three-year absence), Microsoft, Dell, and Cisco Systems.

This year's list also includes nine health-care and drug companies -- a relatively impressive showing, albeit a sharp drop from the 16 on last year's list. The culprit: a decline among pharmaceutical makers, who have suffered from patent expirations and a dearth of blockbuster drugs. Indeed, with Merck's plunge from No. 20 last year to No. 270, the last surviving company to make the BW50 every year since inception has been dethroned. To some extent, this turnover reflects the measurement periods -- one and three years -- that BusinessWeek uses in determining the rankings. Capturing data over more than three years might cut down on the churn -- but it would risk missing the dynamic nature of the most creative companies.

Of course, what many readers will want to know is simply, can you make money by investing in the BW50? That depends on how you use it. As a basket of stocks, the group made money last year, but less than if you had invested in one of the major indexes. The Class of 2003 delivered a 22.9% total return during the 12 months ended this past Feb. 27, which is the cutoff date we use for calculating one- and three-year total market returns. That compares with 34.1% for the Dow Jones industrial average, 36.1% for the S&P 500, and a blistering 51.8% rebound by the tech-heavy NASDAQ Composite Index. However, the BW50 also provides a wealth of data that can be used as the starting point for investment ideas. For one approach to slicing and dicing the list, check out Robert Barker's column on page 94. To track the market performance of the new list over the coming year, go to the Figures of the Week page online at [www.businessweek.com/magazine/extra.htm](http://www.businessweek.com/magazine/extra.htm).

**Growth Gains on Value THIS MARKS THE** fourth straight year that the BW50 has trailed at least two of the three major indexes, which reveals something that should be obvious from the way we compile our ranking: The BW50 is at heart a growth list. As such, it tends to outperform the broader market during periods when the economy is sizzling but is prone to lagging behind when the economy is either in recession or is revving back up as it did in the past year. Indeed, most growth indexes have had a hard time during that same stretch: Over the past four years, the Russell 3000 Growth Index suffered an annualized 12.1% decline, while the Russell 3000 Value Index gained an average 7.2%. "It's been an abysmal time for anything that looks like growth," notes Kevin M. Johnson, a principal at Philadelphia-based Aronson+Johnson+Ortiz LP, a \$ 15 billion investment firm that uses quantitative analysis. Johnson thinks the performance gap between growth and value is likely to narrow, or even reverse, in coming years, given that the "earnings yield" between most growth and value indexes has narrowed.

It might be tempting to discount the accomplishments of so many consumer-oriented companies on the BW50, given how well consumer spending has held up. Or to see the seven energy companies on the list as proof that success in this sector depends on nothing more than the price of oil -- which rose 23% last year, while natural gas prices soared 70%. And there's no denying that the sharp drop in mortgage rates contributed to the high rankings of homebuilders like Pulte Homes Inc. (No. 11) and Centex Corp. (No. 12).

But somehow these outfits rise above the rest in their industries. Why? Behind every BW50 success story there's usually a company culture that encourages more one-of-a-kind products or proves more adaptable than rivals. So while it's good to be in the medical-equipment business at a time when the population is aging, that doesn't fully explain why St. Jude Medical Inc. (No. 21) and Stryker Corp. (No. 30) boast average annual profit growth of 40% and 27%, respectively, over the past three years. Led by longtime CEO John W. Brown, Stryker has consistently stayed one step ahead of the competition in hip- and knee-replacement products. That includes last year's Trident -- the first ceramic-and-titanium replacement hip, which can last a lifetime instead of the usual 10 or 20 years for a polyurethane device. St. Jude, meanwhile, pumps a hefty 12.5% of its revenues into research and development. It's now reaping the fruits of those investments with insatiable demand for its implantable defibrillators, following independent studies showing those devices significantly reduce deaths in patients with even mild heart disease. "It's a large, thirsty, needy market, and we've got critical mass and great momentum and tremendous product flow. The rest kind of flows naturally," says CEO Terry L. Shepherd.

Targeting the Right Customer SOME OF THE OTHER health-care companies that dot the list are prospering from their ability to bring marketing skills to a sector that isn't known for its consumer savvy. For instance, while most HMOs complain of a cutthroat environment caused by declining reimbursements, this year's BW50 contains three managed-care providers -- WellPoint Health Networks (No. 3), UnitedHealth Group (No. 4), and Humana (No. 50) -- that have demonstrated a Procter & Gamble-type touch. "P&G takes a commodity like laundry detergent and creates different products and price points, and these companies have brought the same consumer marketing tactics -- different products and price points -- into health care," notes Russ Hagey, a managing director at Bain.

Consider WellPoint, which was one of the first companies to pioneer flexible health plans. Today, the Thousand Oaks (Calif.)-based company offers its 15 million medical members a variety of flexible plans, including FamilyElect, which allows different members of a single family to elect different levels of coverage. That means a mom might have a preferred provider organization that offers the highest level of choice with high deductibles and co-pays, while her healthy teenage son uses a less pricey HMO. WellPoint also provides its members with a trove of helpful information, including Internet sites that let individuals see quality ratings and average costs for many common procedures performed at network hospitals. The upshot: Members are happy, and the customized coverage helps lower costs for their employers -- making them happy as well. "Traditionally, health insurers took a mathematical approach to addressing risk," notes CEO Leonard D. Schaeffer, who will be chairman of the company formed when WellPoint merges into Anthem Inc. this summer. "But it's not about math. It's about understanding what consumers want."

The key test for many of the companies that rode the economic cycle upward, of course, comes when the worm turns and they lose pricing power. But for every energy company that made the BW50 thanks to surging oil and gas prices, there are many other companies that now seem impervious to the vagaries of the economy thanks to their success at creating an aura around their brand. Overall coffee sales remain relatively flat in the U.S., for instance, but Starbucks Corp. has shown an amazing ability not only to charge a premium price for its drinks but also to get customers to pay up for music CDs, board games, and other products that are perceived as part of the Starbucks lifestyle. Similarly, Harley-Davidson Inc. cashed in on its 100th anniversary last year by releasing several limited-edition bikes that were snapped up by its loyal fans, and dealers still charge hundreds

over sticker price for the most popular bikes, like the Road King or Fat Boy. These companies know better than anyone how quickly today's "it company" can become tomorrow's has-been. "We stay ahead of the game by worrying about everything that could happen," says Jeffrey L. Bleustein, CEO of Harley-Davidson.

Given the deflationary pressures that leave many businesses unable to raise prices, management experts say it's more important than ever for companies to know which of their customers are the most profitable -- and have the potential to tap them for even greater profits in the future. That isn't necessarily news. In marketing circles, many strategists have long believed that 80% of a company's profits come from 20% of its customers. "What's new is companies' ability to identify who the 20% are," says Frank Mulhern, a marketing professor at Northwestern University. Thanks to their growing use of sophisticated software, Mulhern notes, smart companies "are able to target the exact customer and the revenue that they're generating per person." Consider Starbucks' "Duetto" Visa card, which combines stored value with a credit card that customers can use to earn special offers and accrue points. The program enables Starbucks to drive traffic by targeting special discounts and promotions while it builds a database of the purchasing habits of its most profitable customers. That's a big reason the company has generated annualized 37% profit gains over the past three years.

"One Transaction at a Time" FOR LOWE'S STORES, the revelation from customer research that roughly 80% of home-improvement decisions are initiated not by men but by women prompted the chain to rethink the traditional hardware store. In addition to the bins of nails, hammers, and drills, a typical Lowe's store stocks everything from Laura Ashley throw rugs to Michael Graves-designed faucets. At the same time, Lowe's knows that stocking its store with trained, full-time help rather than part-timers ensures that these shoppers get the professional advice they need -- and often walk out the door with more than they came in for. While most other retailers employ as much part-time help as possible to keep benefits costs down, fully 80% of Lowe's store workers are full-time. "No matter how great your vision or strategy is, you have got to be out there to be able to meet customer's needs, one transaction at a time," says Lowe's president, Robert A. Niblock.

Ditto for Staples. When Ronald L. Sargent took over as CEO of the office-supply retailer in early 2002, it looked as if the onetime growth company had hit a wall. Sargent conducted intensive customer research and decided that the chain was attracting Wal-Mart's typical customer, a casual shopper just shopping the occasional sale. Says Sargent: "They might buy a computer from us, but the problem was that we didn't make much money on it." So instead, Staples homed in on small businesses, which it realized were producing 65% of sales -- and 90% of profits. It revamped the product mix and gave clerks the training to provide small-business owners with useful advice. The payoff? While some other office-supply retailers are reporting slumping sales at older stores, Staples saw sales at all stores open a year or more rise 4% last year.

In today's slower-growth environment, companies constantly need to find new ways to wring out costs as well. Many of the BW50 companies have been leading the productivity charge. Home Depot Inc. (No. 22), for instance, added automated "self-checkout" lanes at nearly 800 of its 1,707 stores. It also armed cashiers with cordless scan guns, helping to shave 8% off the average checkout time, and the use of self-checkout has enabled Home Depot to redeploy workers back onto the sales floor. A companywide crusade by Dell to rethink every business task enabled the PC maker to slash its annual costs by \$ 3 billion. At its Nashville plant, Dell has automated parts-picking, software loading, testing, and boxing of new desktop PCs -- everything except the actual construction of

computers. Dell came away convinced that it can eventually triple the plant's output with just half the number of workers on the factory floor.

While it's far too early to declare victory, there's another area where companies seemed to exhibit more discipline this year: accounting. For the prior two years, we had "deranked" several companies, such as WorldCom in 2002, that otherwise qualified for the BW50 but whose accounting practices were known to be under federal investigation. This year, no company suffered that fate. The only known investigation involving one of the BW50 companies is a probe by the U.S. Attorney in Boston of Stryker's billing practices at its physical therapy centers. Stryker says it is cooperating fully with the investigation.

That may be a sign that more companies are using simpler accounting and making it easier to judge the quality of their earnings. And there is some encouragement in this year's BW50 for those attempting to scrub away the taint of scandal. Cendant Corp., formed by the 1997 merger of franchising company HFS Inc. and direct-marketing firm CUC International Inc., uncovered a \$500 million accounting fraud in the businesses of the former CUC back in the late 1990s. But six years later, Cendant has claimed the No. 2 spot on the BW50. Cendant took a back-to-basics approach. Management brought a number of off-balance-sheet entities back onto Cendant's books and has done very few deals over the past 18 months. Cendant CEO Henry R. Silverman made good on his pledge to use cash flow to institute a dividend, cut debt, and buy back shares. "The overarching objective was to prove that Cendant was more than an acquisition-driven company [and that] we can grow organically," says CFO Ronald L. Nelson. The stock has moved in concert: In the 12 months ended Feb. 27, Cendant's shares returned 85%.

This year's BW50 companies struck gold by digging deeper than their competitors. They stand out for their endless quest to serve their customers better, whether it's getting to the scene of an auto accident quicker, providing more clerks on the sales floor, or simply pouring a better cup of coffee. It's a frame of mind, says John M. Barth, CEO of Johnson Controls Inc. (No. 38), the lone auto parts supplier to make it into our ranking: "Long ago, we realized that if we were going to grow and improve our bottom line, the first thing we had to do was help our customer grow and improve his bottom line." He adds: "We don't delegate customer relations. That's first and foremost everyone's job." That sort of attention to detail is one asset that never loses its value.

The BusinessWeek Fifty	
1	Progressive
2	Cendant
3	WellPoint Health Networks
4	UnitedHealth Group
5	Forest Laboratories
6	ACE
7	Best Buy
8	ConocoPhillips
9	Lowe's
10	Electronic Arts
11	Pulte Homes
12	Centex
13	eBay
14	ChevronTexaco
15	Symantec
16	Dell
17	Qualcomm
18	International Game Technology

## The Best Performers Business Week April 5, 2004 Correction Appended

19	MBNA
20	Marathon Oil
21	St. Jude Medical
22	Home Depot
23	Exxon Mobil
24	Johnson & Johnson
25	Starbucks
26	Procter & Gamble
27	Yahoo
28	Apache
29	Sears Roebuck
30	Stryker
31	Sysco
32	Dollar General
33	Bed Bath & Beyond
34	Quest Diagnostics
35	Nike
36	Devon Energy
37	Intel
38	Johnson Controls
39	Staples
40	American International Group
41	Ambac Financial Group
42	Express Scripts
43	Harley-Davidson
44	PepsiCo
45	Burlington Resources
46	Carnival
47	3M
48	Apollo Group
49	KB Home
50	Humana

Data: Standard & Poor's Compustat

## TOTAL RETURN

The best and worst in shareholder returns among the S&P 500

TOP TEN (ONE-YEAR)	PERCENT CHANGE
Avaya	683.1%
Allegheny Technologies	335.2
Novell	291.5
PMC-Sierra	251.6
United States Steel	219.2
Sanmina-SCI	195.1
Louisiana-Pacific	184.5
Broadcom	179.0
Advanced Micro Devices	173.2
AES	172.9

BOTTOM TEN (ONE-YEAR)	PERCENT CHANGE
Winn-Dixie Stores	-48.7%
Tenet Healthcare	-33.8
MedImmune	-14.4
Mattel	-9.0
Intuit	-6.5
Newell Rubbermaid	-6.2

## The Best Performers Business Week April 5, 2004 Correction Appended

Apartment Invst. & Mgmt.	-4.6
Merck	-0.9
New York Times	-0.5
Eastman Kodak	0.3

TOP TEN (THREE-YEAR)	PERCENT CHANGE
Boston Scientific	395.5%
Symantec	259.5
eBay	258.5
AutoZone	255.1
Apollo Group	225.5
Ball	220.6
Pulte Homes	210.4
Freeport-McMoRan	208.5
Intl. Game Technology	193.4
Paccar	192.2

BOTTOM TEN (THREE-YEAR)	PERCENT CHANGE
Ciena	-91.5%
Dynegy	-91.1
El Paso	-88.2
Calpine	-87.6
Qwest Communications	-87.6
AES	-83.2
JDS Uniphase	-81.9
Delta Air Lines	-78.4
Tellabs	-77.8
Solectron	-76.6

Data: Standard & Poor's Compustat

## SALES GROWTH

The best and worst in sales performance among the S&P 500

TOP TEN (ONE-YEAR)	PERCENT CHANGE
Williams	352%
Comcast	126
Constellation Energy Group	105
ConocoPhillips	79
eBay	78
Yahoo	71
Devon Energy	70
Biogen Idec	68
Apache	64
EOG Resources	59

BOTTOM TEN (ONE-YEAR)	PERCENT CHANGE
CMS Energy	-33%
Providian Financial	-32
ConAgra Foods	-30
Tellabs	-26
Allegheny Energy	-25
JDS Uniphase	-25
ADC Telecommunications	-22
Lucent Technologies	-20

## The Best Performers Business Week April 5, 2004 Correction Appended

Gateway	-18
Schering-Plough	-18
TOP TEN (THREE-YEAR)	PERCENT
	CHANGE
eBay	70.3%
ConocoPhillips	68.3
AmerisourceBergen	64.1
Cendant	58.2
Northrop Grumman	49.0
Calpine	47.4
XL Capital	45.7
Sanmina-SCI	40.3
Devon Energy	39.4
Plum Creek Timber	39.1
BOTTOM TEN (THREE-YEAR)	PERCENT
	CHANGE
Ciena	-43.2%
El Paso	-42.5
Dynegy	-41.7
ADC Telecommunications	-41.4
JDS Uniphase	-40.8
Applied Micro Circuits	-36.9
Tellabs	-34.5
Lucent Technologies	-32.7
CenterPoint Energy	-30.2
Gateway	-29.3
Data: Standard & Poor's Compustat	

## EARNINGS

Best and worst earnings performances in the S&amp;P 500

TOP TEN (ONE-YEAR)	PERCENT
	INCREASE
Devon Energy	2834%
Dana	2817
ACE	1740
Lincoln National	949
Janus Capital Group	911
Travelers Property Casualty	687
ConocoPhillips	558
ChevronTexaco	556
Apple Computer	552
Crane	527
TOP TEN (THREE-YEAR)	AVG. ANNUAL
	INCREASE
Electronic Arts	302.6%
Lockheed Martin	265.1
Wachovia	202.6
Progressive	182.8
McKesson	153.8
Sherwin-Williams	152.4
Chiron	120.0
Qualcomm	118.0
eBay	115.8
Cummins	103.2
BOTTOM TEN (12 MO. LOSS)	MILLIONS
	OF DOLLARS
R.J. Reynolds Tobacco	\$-3,689.0

## The Best Performers Business Week April 5, 2004 Correction Appended

Solectron	-3,082.3
El Paso	-2,031.0
Agilent Technologies	-1,607.0
Sun Microsystems	-1,446.0
Goodyear Tire & Rubber	-1,437.6
Qwest Communications	-1,213.0
Visteon	-1,213.0
Duke Energy	-1,005.0
Broadcom	-959.9

Data: Standard &amp; Poor's Compustat

NET MARGIN  
Best/Worst, S&P 500

TOP TEN (2003)	PERCENT
Janus Capital Group	96.1%
MBIA	55.4
Ambac Financial Group	49.7
Linear Technology	39.8
Kinder Morgan	34.8
ProLogis	34.1
SLM	31.9
North Fork Bancorp.	31.6
Forest Laboratories	30.3
Burlington Resources	29.6
BOTTOM TEN (2003)	PERCENT
Applied Micro Circuits	-319.3%
Biogen Idec	-128.8
Ciena	-127.6
R.J. Reynolds Tobacco	-70.0
Broadcom	-59.6
JDS Uniphase	-45.0
Solectron	-28.6
Micron Technology	-27.2
El Paso	-25.6
Agilent Technologies	-25.6

Data: Standard &amp; Poor's Compustat

RETURN ON EQUITY  
Best/Worst, S&P 500

TOP TEN (2003)	PERCENT
Hercules	1,480.0%
UST	839.5
Avon Products	355.7
Dow Jones	195.2
Maytag	173.8
Colgate-Palmolive	157.3
AutoZone	112.9
IMS Health	103.0
Anheuser-Busch	76.6
Campbell Soup	74.8
BOTTOM TEN* (2003)	PERCENT
Goodyear Tire & Rubber	-334.9%

## The Best Performers Business Week April 5, 2004Correction Appended

Solectron	-224.6
Sprint PCS Group	-178.8
Allegheny Technologies	-147.5
R.J. Reynolds Tobacco	-120.7
Parametric Technology	-66.7
Visteon	-65.3
Broadcom	-64.4
Gateway	-57.2
Agilent Technologies	-52.4

\* Excludes companies with negative equity  
Data: Standard & Poor's Compustat

URL: <http://www.businessweek.com/index.html>

**CORRECTION-DATE:** April 12, 2004

**CORRECTION:**

In the 2004 BW50 ranking (BusinessWeek 50, Apr. 5), the name of International Game Technology's CEO was misspelled. The correct spelling is Thomas J. Matthews.

URL: <http://www.businessweek.com/index.html>

**LOAD-DATE:** April 01, 2004

# **EXHIBIT E**



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Newsweek

July 26, 2004 U.S. Edition

**SECTION:** COVER STORY: TECHNOLOGY; Pg. 42

**LENGTH:** 2459 words

**HEADLINE:** iPod Nation

**BYLINE:** By Steven Levy; With Brad Stone in San Francisco, Jennifer Ordonez in Los Angeles, Catharine Skipp in Miami, Jamie Reno in San Diego, Ron DePasquale in Boston and Jordana Lewis and Claire Sulmers in New York

**HIGHLIGHT:**

In just three years, Apple's adorable mini music player has gone from gizmo to life-changing cultural icon

**BODY:**

Steve Jobs noticed something earlier this year in New York City. "I was on Madison," says Apple's CEO, "and it was, like, on every block, there was someone with white headphones, and I thought, 'Oh, my God, it's starting to happen.'" Jonathan Ive, the company's design guru, had a similar experience in London: "On the streets and coming out of the tubes, you'd see people fiddling with it." And Victor Katch, a 59-year-old professor of kinesiology at the University of Michigan, saw it in Ann Arbor. "When you walk across campus, the ratio seems as high as 2 out of 3 people," he says.

They're talking about the sudden ubiquity of the iPod, the cigarette-box-size digital music player (and its colorful credit-card-size little sister, the Mini) that's smacked right into the sweet spot where a consumer product becomes something much, much more: an icon, a pet, a status indicator and an indispensable part of one's life. To 3 million-plus owners, iPods not only give constant access to their entire collection of songs and CDs, but membership into an implicit society that's transforming the way music will be consumed in the future. "When my students see me on campus with my iPod, they smile," says Professor Katch, whose unit stores everything from Mozart to Dean Martin. "It's sort of a bonding."

The glue for the bond is a tiny, limited-function computer with a capacious disk drive, decked in white plastic and loaded with something that until very recently was the province of ultrageeks and music pirates: digital files that play back as songs. Apple wasn't the first company to come out with a player, but the earlier ones were either low-capacity toys that played the same few songs, or brick-size beasts with impenetrable controls. Apple's device is not only powerful and easy to use, but has an incandescent style that makes people go nuts about it. Or, in the case of 16-year-old Brittany Vendryes of Miami, to dub it "Bob the Music Machine." ("I wanted to keep it close to my heart and give it a name," she explains.)

Adding to the appeal is the cachet of A-list approbation. "I love it!" says songwriter Denise Rich. "I have my whole catalog on it and I take it everywhere." She is only one voice in a chorus of celebrity Podsters who sing the same praises voiced by ordinary iPod users, but add a dollop of coolness to the device, as if it needed it. Will Smith has burred to

Jay Leno and Wired magazine about his infatuation with "the gadget of the century." Gwyneth Paltrow confided her Pod-love to Vogue (her new baby is named Apple--coincidence?). It's been seen on innumerable TV shows, movies and music videos, so much so that Fox TV recently informed Josh Schwartz, producer of its hit series "The O.C.," that future depictions of music players would have to forgo the telltale white ear buds. Schwartz, himself a 27-year-old who still hasn't recovered from the shock of having his unit stolen from his BMW, was outraged. "It's what our audience uses and what our characters would use," he says.

People who actually create music are among the biggest fans: "The layout reminds the musician of music," says tuner John Mayer. And couture maven Karl Lagerfeld's iPod collection is up to 60, coded in the back by laser etching so he can tell what's on them. "It's the way to store music," he says. Lagerfeld's tribute to the iPod is a \$1,500 Fendi pink copper rectangular purse that holds 12 iPods. It is one of more than 200 third-party accessories ranging from external speakers, microphones and--fasten your seat belt--a special connector that lets you control your iPod from the steering wheel of a BMW.

Music hits people's emotions, and the purchase of something that opens up one's entire music collection--up to 10,000 songs in your pocket--makes for an intense relationship. When people buy iPods, they often obsess, talking incessantly about playlists and segues, grumbling about glitches, fixating on battery life and panicking at the very thought of losing their new digital friend. "I'd be devastated if I lost it," says Krystyn Lynch, a Boston investment marketer.

Fans of the devices use it for more than music. "It's the limousine for the spoken word," says Audible CEO Don Katz, whose struggling digital audiobook company has been revitalized by having its products on Apple's iTunes store. (Podsters downloaded thousands of copies of Bill Clinton's autobiography within minutes of its 3 a.m. release last month.) And computer users have discovered that its vast storage space makes it a useful vault for huge digital files--the makers of the "Lord of the Rings" movies used iPods to shuttle dailies from the set to the studio. Thousands of less-accomplished shutterbugs store digital photos on them.

iPods aren't conspicuous everywhere--their popularity seems centered on big cities and college towns--but sometimes it seems that way. "I notice that when I'm in the gym, as I look down the treadmills, that just about everybody in the row has one," says Scott Piro, a New York City book publicist. And the capper came earlier this year during the Apple vs. Apple case--wherein the Beatles' record company is suing the computer firm on a trademark issue. The judge wondered if he should recuse himself--because he is an avid iPod user. (The litigants had no objection to his staying on.)

In 1997, when Steve Jobs returned to the then struggling company he had cofounded, he says, there were no plans for a music initiative. In fact, he says, there wasn't a plan for anything. "Our goal was to revitalize and get organized, and if there were opportunities we'd see them," he says. "We just had to be ready to catch the ball when it's thrown by life." After some painful pink-slipping and some joyous innovating, the company was solvent.

But in the flurry, Jobs & Co. initially failed to notice the impending revolution in digital music. Once that omission was understood, Apple compensated by developing a slick "jukebox" application known as iTunes. It was then that Apple's brain trust noticed that digital music players weren't selling. Why not? "The products stank," says Apple VP Greg Joswiak.

Life had tossed Jobs a softball, and early in 2001 he ordered his engineers to catch it. That February, Apple's hardware czar, Jon Rubinstein, picked a team leader from outside the company--an engineer named Tony Fadell. "I was on the ski slopes in Vail when I got the call," says Fadell, who was told that the idea was to create a groundbreaking music player--and have it on sale for Christmas season that year. The requirements: A very fast connection to one's computer (via Apple's high-speed Firewire standard) so songs could be quickly uploaded. A close synchronization with the iTunes software to make it easy to organize music. An interface that would be simple to use. And gorgeous.

Fadell was able to draw on all of Apple's talents from Jobs on down. VP Phil Schiller came up with the idea of a scroll wheel that made the menus accelerate as your finger spun on it. Meanwhile, Apple's industrial designer Ive embarked on a search for the obvious. "From early on we wanted a product that would seem so natural and so inevitable and so simple you almost wouldn't think of it as having been designed," he says. This austerity extended to the whiteness of the iPod, a double-crystal polymer Antarctica, a blankness that screams in brilliant colors across a crowded subway. "It's neutral, but it is a bold neutral, just shockingly neutral," says Ive.

Assessing the final product, Jobs bestows, for him, the ultimate accolade: "It's as Apple as anything Apple has ever done."

The October 2001 launch was barely a month after 9/11, with the country on edge and the tech industry in the toilet. Skeptics scoffed at the \$399 price and the fact that only Macintosh users, less than a twentieth of the marketplace, could use it. But savvy Mac-heads saw the value, and the iPod was a hit, if not yet a sensation. What pushed it to the next level was a number of Apple initiatives beginning with a quick upgrade cycle that increased the number of songs (while actually lowering the price). Then Apple released a version that would run on Windows and Mac, dramatically increasing the potential market. Finally, after intense negotiations with the record labels, Apple licensed hundreds of thousands of songs for its iTunes Music Store, which blended seamlessly with the iPod. As with the iPod itself, the legal-download store was not the first of its kind but was so felicitous and efficient that it leapt to a 70 percent market share.

Then sales began to spike. No one was surprised that Apple sold an impressive 733,000 iPods during the Christmas season last year, but the normally quiet quarter after that saw an increase to 807,000. And last week Apple announced that sales in the just-completed third quarter, traditionally another dead one--hit 860,000, up from 249,000 a year ago.

That total would have been higher had Apple not had problems getting parts for the latest iteration, the iPod Mini. Though critics praised its compactness and its panache--a burnished metallic surface made it look like a futuristic Zippo--they sniffed at its relatively low capacity (only 1,000 songs!). But apparently there were lots of people like Los Angeles chiropractor Pat Dengler, who saw the Mini as a must. "At first I thought, I already have an iPod, I don't need it," she says. "But after I played with it, I thought, I really dig it. Now I use them both." Dengler was lucky, as many had to suffer through a monthlong waiting list. To the delight of Apple (and the chagrin of Sony), the no-brainer description of the iPod is "the Walkman of the 21st century." And just as the Walkman changed the landscape of music and the soundscape of our lives, the iPod and the iTunes store are making their mark on the way we handle our music, and even the way we listen to it.

The store has proved that many people will pay for digital music (though certainly many millions of gigabytes of iPod space are loaded with tunes plucked from the dark side of the Internet). "The iPod and iTunes store are a shining light at a very bleak time in the industry," says Cary Sherman, president of the Record Industry Association of America. Since just about everybody feels that within a decade almost everybody will get their music from such places, this is a very big.

An equally big deal is the way the iPod is changing our listening style. Michael Bull, a lecturer at the University of Sussex, has interviewed thousand of iPod users, finding that the ability to take your whole music collection with you changes everything. "People define their own narrative through their music collection," says Bull.

The primary way to exploit this ability is the iPod's "shuffle" feature. This takes your entire music collection, reorders it with the thoroughness of a Las Vegas blackjack dealer and then plays back the crazy-quilt melange. "Shuffle throws up almost anything--you don't know it's coming but you know you like it," says Bull. "Because of this people often say, 'It's almost as if my iPod understands me!'"

Shuffle winds up helping people make connections between different genres of music. "People feel they're walking through musicology," says rock-er John Mayer. These abilities have a predictable effect: peo-ple who use iPods wind up

listening to more music, and with more passion.

And since the iTunes store encourages customers to eschew buying entire CDs, instead buying the best song or two for a buck a pop, it's easy to see why some think that the era of the CD is playing its final tracks, a circumstance many will lament. "The one cool thing about a CD is really getting to know an album," says iPod fan Wil-Dog Abers, bassist for the hip-hop collective Ozomatli. "I don't know what we're gonna do about that."

In Silicon Valley, the question is what Apple can do to maintain its dominant position in the field. While Apple execs say that they are surprised at how lame the competition has been to date, it's reasonable to think that rivals might eventually close the gap. Almost all the hounds chasing Apple use technology from its longtime rival Microsoft. And Sony, whose initial efforts in the field were constrained by the copy-protection demands of its music unit, is introducing a new line of digital players this summer. "We feel that the experience is as good as Apple's, and we have the Walkman brand, which has sold 200 million units. We're in the game," says Sony America's CEO Howard Stringer. Meanwhile, the ultimate competition may come from services that stream unlimited music for a monthly fee, like Real Networks' Rhapsody. "The fat lady isn't even on the stage yet," says Chris Gorog, CEO of Napster.

But at the moment, the iPod is the category. And everything points to a humongous Christmas season for the iPod. The introduction of the new iPods this week extends the company's technology lead. If Apple, as promised, manages to get enough drives to satisfy the demand, the Mini iPod --may achieve the ubiquity of its wide-bodied companion. And later this summer, when computer giant HP begins selling a co-branded version of the iPod, consumers will be able to get iPods in thousands of additional retail stores.

All this is infinitely gratifying for Steve Jobs, the computer pioneer and studio CEO who turns 50 next February. "I have a very simple life," he says, without a trace of irony. "I have my family and I have Apple and Pixar. And I don't do much else." But the night before our interview, Jobs and his kids sat down for their first family screening of Pixar's 2004 release "The Incredibles." After that, he tracked the countdown to the 100 millionth song sold on the iTunes store. Apple had promised a prize to the person who moved the odometer to 10 figures, and as the big number approached, fortune seekers snapped up files at a furious rate. At around 10:15, 20-year-old Kevin Britten of Hays, Kans., bought a song by the electronica band Zero 7, and Jobs himself got on the phone to tell him that he'd won. Then Jobs asked a potentially embarrassing question: "Do you have a Mac or PC?"

"I have a Macintosh... duh!" said Britten.

Jobs laughs while recounting this. Even though Macintosh sales have gone up recently, he knows that the odds are small of anyone's owning a Mac as opposed to the competition. He doesn't want that to happen with his company's music player. "There are lots of examples where not the best product wins," he says. "Windows would be one of those, but there are examples where the best product wins. And the iPod is a great example of that." As anyone can see from all those white cords dangling from people's ears.

**GRAPHIC:** PHOTO: Dress it up: R&B star Alicia Keys, helping Jobs open an Apple store in London, may be interested in a designer case by (clockwise from top) Louis Vuitton, iSkin, Gucci, Prada or Coach; PHOTO: Second Players: As hard as they try, imitators can't duplicate the iPods appeal.; PHOTO: 1. Creative Zen Touch, 20 gigs; \$269, creative.com; PHOTO: 2. Sony Network WalkNW-HD1, 20 gigs; \$399 (est.), sony-style.com; PHOTO: 3. Rio Karma, 20 gigs; \$299, rioaudio.com; PHOTO: 4. Dell Digital Jukebox, 15 or 20 gigs; \$199 or \$279, dell.com; PHOTO: Tiny tunes: Introduced earlier this year, the sleek, colorful -- and expensive -- Mini is so hot that it takes up to a month to get one; PHOTO: Plug-In Podners: Of the 200 available iPod accessories, here are a few must-haves; PHOTO: 1. iPod Mini Arm Band, \$29.; PHOTO: 2. Belkin Media Reader, \$99.; PHOTO: 3. Altec Lansing InMotion Portable iPod Speakers, \$149.; PHOTO: 4. Sony Car Cassette Adapter, \$19.95.; PHOTO: 5. Belkin Voice Recorder, \$34.95.; PHOTO: 6. Shure E3c Sound Isolating Earphones, \$179.; PHOTO: 7. JBL Creature II Speakers, \$99.; PHOTO: Shore

thing: Ransom Everglades Camp sailing instructor Camila Orsorno, 16 (near left), stays plugged into her iPod, a week old and already with tunes; PHOTO: Pody on: An iParty in New York, where guests can pick the music; GRAPHIC(text/charts/graphs): The New Musical Icon: Apple's portable has invigorated the company's profits, and is changing the way people buy and store music. The iPod effect (graphic omitted)

**LOAD-DATE:** July 20, 2004

# **EXHIBIT F**



Copyright 2005 Gannett Company, Inc.  
USA TODAY

January 12, 2005, Wednesday, FINAL EDITION

**SECTION:** MONEY; Pg. 1B

**LENGTH:** 456 words

**HEADLINE:** Apple strikes while the iPod is hot

**BYLINE:** Jefferson Graham

**DATELINE:** SAN FRANCISCO

**BODY:**

SAN FRANCISCO -- Apple Computer introduced a radically different-looking computer Tuesday and a new economy-priced iPod digital music player for \$99 -- both aimed at profiting from the hot-selling iPod.

Wall Street had expected the products. But the new iPod Shuffle is \$50 lower than analysts and Internet gossip sites had speculated. And the computer, the \$499 Mac Mini, is Apple's lowest-priced ever.

"People who are thinking of switching will no longer have an excuse not to," Apple CEO Steve Jobs said at the Macworld trade show here.

The Mac Mini is a tiny box with a slot to insert a CD or DVD. It's 2 inches tall by 6.5 inches deep and weighs 2.9 pounds. It comes without a keyboard, mouse or monitor. Jobs said that, as most people already have that gear, they can buy the Mac Mini as a second computer.

Apple historically has asked premium prices for its products. And even though critics rave about its wares, its share of the computer market is tiny: 3.5%. With a sub-\$500 computer, tech analysts think, Apple finally may get iPod users to switch from Windows PCs.

"Apple has hit a real nerve," says independent analyst Tim Bjarin of Creative Strategies. "For the first time, people are going to have to seriously consider switching."

Gene Munster, an analyst at securities firm Piper Jaffray, said Apple's move takes away the "big negative" customers have had about Apple: its higher prices. The Mac Mini "will have a dramatic effect on computer sales," he says.

Smash sales of Apple's iPod digital music player -- 10 million since 2001 and 8.2 million in 2004 alone -- have transformed the company. Its retail stores, for instance, are huge hits.

The new iPod, meanwhile, is different from other models in that it has no preview screen to see what song is playing. Jobs says the unit is so small that users won't care.

Apple strikes while the iPod is hot USA TODAY January 12, 2005, Wednesday,

In a twist for Apple, the Shuffle is priced lower than competitors'. It starts at \$99 for 512 megabytes of internal memory, good for 120 songs. Competitive models with that amount of memory from iRiver and Rio sell on Amazon for \$177 and \$184, respectively.

The Shuffle is so low-priced that some consumers might just buy it and skip the more expensive iPods, which start at \$249, leaving less profit for Apple.

Bjarin says that's a legitimate concern.

"This move isn't so much about making more money as it is to get more people to experience the iPod," he says.

About the iPod Shuffle

- \* Smaller than a pack of gum. Shuffle, right, at its actual size.
- \* Weighs 0.78 of an ounce.
- \* Storage of 512 MB or 1 GB.
- \* Holds up to 240 songs.
- \* Battery life up to 12 hours.
- \* Starting at \$99.

Source: Apple

**GRAPHIC:** PHOTO, Color, Apple

**LOAD-DATE:** January 12, 2005

# **EXHIBIT G**



Copyright 2005 Gannett Company, Inc.  
USA TODAY

February 1, 2005, Tuesday, FINAL EDITION

**SECTION:** NEWS; Pg. 1A

**LENGTH:** 1911 words

**HEADLINE:** In iPod America, legions in tune

**BYLINE:** Marco R. della Cava

**DATELINE:** SAN FRANCISCO

**BODY:**

SAN FRANCISCO -- With its high-tech decor and clubby feel, Apple's flagship store here doesn't look like a creepy cult headquarters. But there's some kind of mind-noodling going on: Everyone exiting its glass doors is ready to spout the gospel of iPod.

"I love the sound quality and how many songs I can carry around," says real estate agent Paige Baron, 25, running her fingers over a pink iPod Mini. "My friends all have one, and I just felt it was time to catch up."

She has just joined the iPod nation. Apple may have introduced its innovative digital music player in 2001, but of the 10 million iPods sold to date, 8.2 million of the \$249 to \$399 gadgets were purchased in 2004. Nearly 5 million were bought over the holiday season alone. With its new \$99 Shuffle, Apple expects the streets to soon sprout even more iPod people.

"This is all part of the shift from mass media to personalized media," says Paul Saffo, research director of the Institute for the Future, a tech think tank in Palo Alto, Calif. "With the iPod, the Buddha is in the details. The finish and feel are such that you want to caress it.

"And when you do, wonderful things happen."

For the gizmo-impaired, an iPod is a white plastic rectangle the size of a deck of cards. It allows you to cart around up to 10,000 of your favorite songs and navigate through them with the flick of a thumb. All of which makes its cultural predecessor -- Sony's cassette-based Walkman -- seem like a relic of the Flintstone Age.

Befitting a contraption that has captured the fancy of everyone from working stiffs to head-bopping celebrities like Nicole Kidman and Leonardo DiCaprio, the iPod has created its own:

\* Economy. Dozens of new companies cater to the faithful, including accessory manufacturers that turn your iPod into a digital audio recorder; fashion firms making clothes with iPod-ready pockets; and companies that will load your entire CD collection onto your iPod.

In iPod America, legions in tune USA TODAY February 1, 2005, Tuesday,

\* Cultural trends. Some nightclubs are offering patrons the chance to DJ via their iPods, while even bolder owners practice iPod "jacking," momentarily swapping units with a stranger to tap into another devotee's musical soul.

\* Naysayers. Some consumers still balk at the top-of-the-line iPod's cost, and others have yet to be convinced that Apple's version of the MP3 player will ultimately dominate the category. Recently, Dell CEO Kevin Rollins dished the iPod as a "one-product wonder" that his and other companies would top soon.

Tell that to iPod's legions and get ready to duck. All you need to know is that one woman calls hers My Precious after the prized *Lord of the Rings* talisman.

This device 'has changed my life'

Interviews with owners of various ages tell the same unsolicited tale. They shun today's radio programming (too much talk, not enough good songs) and resent buying CDs that are full of songs they *don't* want (they gladly spend 99 cents a song at Apple's iTunes online music store, where 1.2 million songs are snapped up daily).

"This is no fad -- the iPod has changed my life," says Andrea Kozek, 29, a health care professional from Milwaukee and owner of, yes, My Precious.

Between hours on planes and at the gym, Kozek is rarely iPodless.

"When I need to block out the rest of the world, I turn it on," she says. "Forget about radio stations. Do I really want to hear Britney Spears doing Bobby Brown's *My Prerogative*? It wasn't a good song the first time around."

Such paeans spell good news for anyone in the portable digital music market. One innovative success story belongs to New York-based RipDigital, which offers busy people quick entry into the iPod world.

Say you've collected hundreds of CDs but cringe at the thought of loading -- or "ripping" -- those discs into your computer for transfer to an iPod. In fact, at roughly 10 minutes of ripping time per CD, a collection of 150 would take "four weekends of your free time," RipDigital founder Richard Adams says.

For roughly a dollar a CD, Rip Digital and competitors such as Get Digital and LoadPod will send you packing material for your collection, transfer that collection either onto a DVD or an external hard drive, and ship it back in a comparative wink.

"We've been making hay since Christmas, thanks to the iPod," Adams says. "People who never adopt tech gadgets seem to have adopted this one. It looks great and isn't intimidating."

Rival MP3 makers hoping to chase down Apple's runaway hit have their work cut out: Maverick CEO Steve Jobs has his foot to the company's floorboard.

Newer offerings include both the already popular Shuffle, which can hold up to 240 songs and is the size of a stick of gum, and the iPod Photo. In its 60-gigabyte incarnation, the iPod Photo will swallow up to 15,000 songs and as many as 25,000 photos, which can be viewed on a full-color screen.

The Cupertino, Calif.-based company also is expanding on its work with BMW -- which offers an iPod-ready vehicle -- in an effort to get automakers from upmarket Mercedes to Toyota's populist Scion brand to provide iPod owners a seamless transition from home to dashboard.

"We had no idea this thing would get this huge, but now that we do, we just plan to innovate faster than any of our competitors," Apple Senior Vice President Phil Schiller says.

Even with the right gee-whiz hardware, other MP3 makers still have to contend with Apple's *coup de grace*. Simply

In iPod America, legions in tune USA TODAY February 1, 2005, Tuesday,

put, the iPod is the king of cool.

How cool? Consider that last year, Jonathan Ive, the iPod's British-born designer, took the BBC's title of Britain's most influential cultural figure, beating out *Harry Potter* creator J.K. Rowling and *The Office* star Ricky Gervais.

'It's what everyone wants'

When you literally rock the world, folks notice.

"When I was a teen, I went everywhere with my AM transistor radio," says Linda Iroff of Oberlin (Ohio) College's information technology department. "Then, that was the coolest thing. Now the iPod is. It's what everyone wants."

Iroff should know. Oberlin, which is renowned for its music conservatory, allows its students to share their music -- listening only, no copying -- via Apple's iTunes software, which is networked throughout the campus.

"I'll get an instant message from a friend saying, 'I have a song you should check out,' and that's been a great way to listen to artists I've never heard of," says junior Ethan Baldwin, 20. "And, of course, everything gets zipped to my iPod. It goes everywhere, the car, the gym, to work, everywhere."

Students at Duke University in Durham, N.C., can be seen clutching their iPods for another reason.

This past fall, the school decided to issue nearly 2,000 iPods to incoming freshmen, as well as some upperclassmen and professors. Dubbed the "iPod First-Year Experience," the program is meant to make language classes and lecture-heavy courses easier by providing students with the handy audio tool.

"The iPod is such a pop-culture phenomenon that we wanted to see if there was a way to use it to enhance the academic experience," says Tracy Futhey, Duke's vice president for information technology. "There are more uses for this thing than you can imagine."

That includes the nascent practice of Podcasting, essentially an audio version of blogging. Instead of posting your thoughts to a personal Web log, imagine recording anything from a movie review to chats with a friend and making that session available for download to an iPod (hence the name) or any other MP3 player.

iPods also are turning the average clubgoer into a tastemaker for the masses. Cafe Saint-Ex in Washington, D.C., hosts a monthly party in its Gate 54 lounge during which iPod owners are allowed to plug their devices into the sound system and give fellow revelers a taste of their own collections.

"We've found that everyone wants to be a DJ for 15 minutes," general manager John Snellgrove says. "Most of the music people play is pretty modern. Sometimes things are a bit off, but nobody boos or anything. A lot of times people wind up posting their set lists on Web sites so people can see what music they heard."

That sense of sharing musical passions is behind the quirky custom of iPod-jacking, which requires an openness usually not found in today's fast-paced world. When Steve Crandall started spotting other iPod listeners during his ritual walk around his condo complex in Basking Ridge, N.J., he began to make eye contact.

"One day, a girl made eye contact back with me, pulled her headphones out of her jack and offered me her iPod. I took it, gave her mine, and not a word was said," says Crandall, 51, the technology chief at a design research company. "After a few minutes, we swapped back, nodded, and moved on."

What was on her iPod? "Very cool stuff, specifically modern versions of Sami music from Lapland," Crandall says. After that encounter, he found himself -- perhaps unwisely -- approaching strangers in New York with his iPod proffered. "People don't always seem that social there," he laughs. "But you know, when I did that, a lot of people responded in kind."

In iPod America, legions in tune USA TODAY February 1, 2005, Tuesday,

Russell Miller knows the feeling. While riding the local train one day, the 19-year-old sophomore at the University of Miami approached a woman with an iPod and asked what she had playing.

"She had Radiohead on, which I love. And she was very cute," Miller says. He didn't get a date, "but I got to listen to that song, and that was pretty cool."

There's that word again: cool. It pops up time and again in conversations with iPod faithful.

Not long after Lauren Fix bought her green iPod Mini, she took it on a flight. Someone thought it was "so cool they offered to buy it from me on the spot, and I told him he was crazy," the auto journalist and mother of two says. Every member of her family has an iPod.

"We'll all be listening to our own music at the same time: I'll be connected to iTunes on my laptop, my kids will have the iPods on, and my husband likes to listen to his while he's surfing around on eBay," says Fix, 40, of Williamsville, N.Y.

The combination of a plane ride and an iPod helped Bruce Carroll reconnect with an old friend he didn't see much anymore.

After "counting the minutes until 10,000 feet, when I could turn on my iPod," Carroll, 36, of Chantilly, Va., heard a song in his random mix of personal tunes that reminded him of his buddy. When he landed, he e-mailed the friend, simply putting a choice lyric from the song in the "Subject" field.

"He was in the middle of a business meeting, but he burst out laughing," Carroll recalls. "That song triggered memories of our strong friendship. I absolutely love my iPod."

Yes, there are naysayers

But rest assured, not everyone is a devoted follower. In fact, some have yet to see the appeal of digital music at all.

"While I love music, I don't have an iPod and don't really have an interest in one," says Jason Andracki, 30, of Meadville, Pa. "I feel music loses something when it's removed from the album format and doesn't include liner notes and artwork."

Fair point, Jason. Stick to those old-school guns. Just don't wander by an Apple store, where a cooing salesman might show you how the new iPod Photo allows you to download album art to your tiny full-color screen. For Apple, there are no disinterested consumers -- just nonbelievers to convert.

**GRAPHIC:** GRAPHIC, Color, Keith Simmons, USA TODAY (ILLUSTRATION); PHOTO, B/W, Paul Sakuma, AP; GRAPHIC, B/W, Marcy E. Mullins, USA TODAY, Sources: Apple; The NPD Group (LINE GRAPH); The band likes the brand: In the fall of 2004, the Irish rock band U2, led by Bono, left, joined forces with Apple and its CEO Steve Jobs, right, to launch the iPod U2 Special Edition.

**LOAD-DATE:** February 01, 2005

# **EXHIBIT H**



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**BusinessWeek**

Business Week

April 3, 2006

**SECTION:** The 2006 BW50; Pg. 64 Vol. 3978

**LENGTH:** 2171 words

**HEADLINE:** The Best Performers 2006;

With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building intense customer loyalty.

**BYLINE:** By Dean Foust, with William C. Symonds in Boston, Brian Grow in Atlanta, and Fred Katzenberg in Ne

**BODY:**

The last place you might expect to find creativity would be the corner drugstore. But just take a look at CVS Corp. First, it focused on the pharmacy, creating a sophisticated system that allows customers to phone in, and then pick up, prescriptions at preset times. And after an exhaustive survey of shoppers, the chain, based in Woonsocket, R.I., embarked on a sweeping makeover of the rest of its 5,400 stores, focusing on its core female shoppers. Shelves that previously stood six to seven feet high were lowered to five feet, putting every item within view of the average woman (who, CVS found, is 5 feet 4 inches tall). Stores were repainted in vivid designer colors.

Not least, CVS made a major upgrade of its beauty sections. It hired several hundred beauty advisers, who help shoppers select just the right shade of foundation and then recommend other cosmetics. And the company added exclusive brands such as hair-care products by Beverly Hills stylist Christophe as well as Lumene, a Finnish skin-care and cosmetics brand that is the top-selling beauty line in Europe. The new ranges "have created energy and momentum for us," says Helena Foulkes, CVS's senior vice-president for marketing and advertising. "Our beauty business is outperforming our overall store." The innovations have paid off for CVS. Same-store sales rose 6.5% last year, helping fuel an overall 33% increase in earnings. Investors are raving as well, with CVS shares up 132% over the past three years -- a performance that helped earn CVS the No. 39 slot in this year's BusinessWeek 50, our 10th annual effort to identify the best-performing companies in Standard & Poor's 500-stock index.

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

Some powerful economic and demographic forces favored certain sectors this year. With oil at \$60 a barrel, energy-related companies are at the fore. Among them are a number of service providers, including Baker Hughes (No. 21), National Oilwell Varco (No. 27), and Weatherford International (No. 36). That's further evidence for investors that the biggest winners aren't always the companies digging for gold but sometimes the companies selling the picks and shovels. And the list was populated, once again, with a number of health-care companies, including Amgen (No. 9) and Aetna (No. 10), a reflection of the aging of baby boomers.

Pull out energy and health care, however, and you'll find a lot of successful companies on this year's BW50 that, like CVS, earned their stripes the hard way, by thriving in industries where stiff competition and cutthroat pricing have wiped out lesser companies. These companies have used innovation -- be it through technology, or clever design and marketing -- to win the hearts and wallets of consumers. And with more and more businesses seeing their competitive edge whittled away by the Internet and globalization, experts say it's imperative for companies always to look for new ways to build, and then maintain, intense customer loyalty.

#### Competitive Advantage

The best example may be this year's No. 1 company, Apple Computer Inc., which has used catchy TV ads as well as cutting-edge technology to stay ahead of competitors selling MP3 devices, most recently with the video capabilities of its newer iPods (page 68). Ditto for 24th-ranked Starbucks Corp., which is staying a step ahead of other coffee shops by creating new drinks such as current fave Marble Mocha Macchiato as well as producing music compilations aimed at baby boomers, all of which give its customers new reasons to keep coming back.

Staples Inc. (No. 44) turned a perpetual source of customers' annoyance -- the rebate process that many have grown to distrust -- into a competitive advantage. By allowing shoppers simply to file for a rebate at its Web site without photocopying receipts or cutting UPC codes off boxes, Staples has earned the trust and loyalty of millions. Staples says its research showed that 80% of customers found its online rebate process "extremely easy" and -- most important -- are more likely to seek out Staples for their future needs. "We think the marketing of rebates is a significant positive in terms of brand loyalty and sales," says James F. Sherlock, director of sales and merchandising for Staples. So far, eight million customers have claimed their rebates electronically, and Staples is working to enhance the program further. By early next year it hopes to give customers a choice of a rebate check, direct deposit into their bank account, or the ability to convert the funds into an immediate purchase at Staples.

Several companies have made their mark by providing better service. Adrian Slywotzky, a vice-president at Mercer Management Consulting, notes that Lowe's (No. 11) and Best Buy (No. 19) have both put a premium on offering more service than their better-known rivals, Home Depot and Wal-Mart Stores, respectively. Lowe's, for instance, has designed its stores to appeal to women, with wider aisles that make it easier for moms to navigate a stroller or shopping cart and better lighting. Lowe's also uses a higher proportion of full-time workers, who tend to be more knowledgeable, than Home Depot. Best Buy has managed to steal away from Wal-Mart popular brands, such as Samsung Group, that prefer their goods to be displayed in Best Buy's bright and lively stores. "This proves that smaller players who create a different value proposition that emphasizes service can compete with the big boys," says Slywotzky.

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

Marketing savvy may make for profitable businesses, but, alas, it doesn't always produce big returns for investors. While 32 of the 50 companies that made last year's roster generated positive returns over the ensuing 12 months, the group as a whole failed to beat two of the major indexes. The BW50 stocks earned an 8.2% return in the year through Mar. 14, 2006. That's better than the 5.5% total return for the Dow Jones industrial average, but below the 9.4% gain of the S&P 500 and the 12.7% earned by the NASDAQ Composite index.

That's no big surprise. The BW50 has a growth and momentum bias. It tends to shine during years when the market is rising quickly -- and performs less well in grinding markets. And last year's class was held back by the tech sector, with Electronic Arts, Dell Computer, and Symantec all suffering losses of 20% or greater. But as the saying goes, it's not a stock market, but a market of stocks, and there are plenty of ways to mine the BW50 for investment ideas (page 78).

Tech isn't as dominant this year, and given the diversity of this year's list, we've selected a cross section of companies to profile: Apple, which built on the popularity of the iPod to become this year's star performer; FedEx, which has ridden the manufacturing boom in China better than any delivery company; two standout homebuilders, Lennar and D.R. Horton; Goldman Sachs, which continues to spin profits out of its proprietary trading; and Schlumberger, whose heavy investments in R&D and technology made it a standout in the energy-services field. What they all have in common is that they have developed products and services that are distinct from the rest of the herd. In addition, we've included brief snapshots of each of the BW50 companies. And we round out this year's coverage with statistical tables that provide performance rankings for the BW50. The full ratings for the S&P 500 appear on BusinessWeek Online. Read on.

**METHODOLOGY:** How we measured the top 50

One of the BusinessWeek 50's main goals is to capture the dynamic nature of strong growth. That's reflected in how we identify the best of the Standard & Poor's 500-stock index. We use 10 performance metrics, starting with sales and earnings growth. We tally both for the most recent 12-month and three-year periods, to reward companies that prosper over time. This year, for the first time, we include long-term earnings prospects. We factor in net profit margins. And finally we account for the market's view, by measuring total shareholder returns for one- and three-year periods.

We weight the results for sales volume, because it's harder for large companies to post impressive revenue- and profit-growth figures. And we factor in the debt-to-capital ratio, to recognize clean balance sheets. That also makes it harder for corporations to qualify with growth that's primarily the result of debt-laden acquisitions.

The BusinessWeek 50

- 1 Apple Computer
- 2 WellPoint
- 3 Caremark Rx
- 4 UnitedHealth Group
- 5 Schlumberger
- 6 Occidental Petroleum
- 7 Halliburton

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

- 8 Qualcomm
- 9 Amgen
- 10 Aetna
- 11 Lowe's
- 12 Burlington Northern Santa Fe
- 13 Motorola
- 14 Yahoo!
- 15 Goldman Sachs Group
- 16 Lehman Brothers Holdings
- 17 Gilead Sciences
- 18 Jabil Circuit
- 19 Best Buy
- 20 EMC
- 21 Baker Hughes
- 22 Texas Instruments
- 23 Cisco Systems
- 24 Starbucks
- 25 Intel
- 26 D.R. Horton
- 27 National Oilwell Varco
- 28 JPMorgan Chase
- 29 Merrill Lynch
- 30 Valero Energy
- 31 ConocoPhillips
- 32 Marathon Oil
- 33 Prudential Financial
- 34 Microsoft
- 35 Freeport-McMoRan Copper & Gold
- 36 Weatherford International
- 37 eBay
- 38 Coventry Health Care
- 39 CVS

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

- 40 FedEx
- 41 Franklin Resources
- 42 Lennar
- 43 Coach
- 44 Staples
- 45 NVIDIA
- 46 Norfolk Southern
- 47 Caterpillar
- 48 McKesson
- 49 Hartford Financial Services Grp.
- 50 Home Depot

Data: Standard & Poor's Compustat

#### The Best And Worst Of The S&P 500 Companies

#### EARNINGS Best earnings growth and biggest losses in the S&P 500

TOP TEN (ONE-YEAR)	PERCENT CHANGE
TXU	2091%
CA	1970
Allegheny Technologies	1727
Rowan	693
Biogen Idec	541
Halliburton	512
Agilent Technologies	511
Genzyme	410
Newell Rubbermaid	405
Freeport-McMoRan C & G	392
TOP TEN (THREE-YEAR)	PERCENT CHANGE
Phelps Dodge	835.5%
Transocean	523.6
Avaya	496.6
Robert Half Intl.	457.6
Apple Computer	318.7
Monster Worldwide	315.1
Valero Energy	234.5
Devon Energy	230.3
Monsanto	221.9
Symbol Technologies	212.6
BOTTOM TEN (ONE-YEAR LOSS)	MILLIONS OF DOLLARS
General Motors	-\$8,445.0
CBS	-8,321.8
Unisys	-1,731.9
Eastman Kodak	-1,455.0

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

XL Capital	-1,252.0
Sanmina-SCI	-1,010.5
Dynegy	-803.0
Qwest Communications	-757.0
El Paso	-693.0
Tenet Healthcare	-621.0

TOTAL RETURNS The best and worst in shareholder returns among the S&P 500

TOP TEN (ONE-YEAR)	PERCENT CHANGE	
Express Scripts	131.8%	
Advanced Micro Devices	121.6	
Corning	112.8	
Broadcom	109.8	
Allegheny Technologies	107.3	
Tellabs	106.9	
Ciena	103.0	
E*Trade Financial	92.8	
Allegheny Energy	88.9	
Office Depot	85.4	
BOTTOM TEN	(ONE-YEAR)	PERCENT CHANGE
Gateway	-49.8%	
Lexmark International	-41.2	
General Motors	-39.2	
Symbol Technologies	-34.3	
Ford	-34.2	
RadioShack	-33.1	
Apollo Group	-32.9	
Avon Products	-31.1	
Sanmina-SCI	-29.9	
Tenet Healthcare	-27.7	
TOP TEN	(THREE- YEAR)	PERCENT CHANGE
Allegheny Technologies	1673.4%	
Apple Computer	812.6	
Advanced Micro Devices	604.4	
TXU	603.4	
E*Trade Financial	509.0	
Allegheny Energy	497.0	
Williams	479.4	
Valero Energy	463.8	
Monster Worldwide	456.6	
Circuit City Stores	453.9	
BOTTOM TEN (THREE-YEAR)	PERCENT CHANGE	
Tenet Healthcare	-56.6%	
New York Times	-36.1	
General Motors	-29.2	

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

Tribune	-28.8
Unisys	-27.9
Ciena	-25.8
Lexmark International	-24.5
Maytag	-22.3
Merck	-21.5
Fifth Third Bancorp	-20.9

SALES GROWTH The best and worst in sales performance among the S&P 500

TOP TEN (ONE-YEAR)	PERCENT CHANGE	
WellPoint	117%	
National Oilwell Varco	100	
Sears Holdings	93	
North Fork Bancorp.	91	
XTO Energy	80	
Freeport-McMoRan	C & G	76
Chesapeake Energy	72	
Apple Computer	66	
EOG Resources	59	
Rowan	57	
BOTTOM TEN	(ONE-YEAR) CHANGE	PERCENT
OfficeMax	-31%	
El Paso	-27	
Teradyne	-24	
Duke Energy	-19	
American Electric Power	-15	
Applied Materials	-14	
Solectron	-12	
Forest Laboratories	-12	
Electronic Arts	-10	
Sanmina-SCI	-9	
TOP TEN	(THREE-YEAR) CHANGE	PERCENT
Biogen Idec	92.6%	
Chesapeake Energy	82.0	
Yahoo!	80.6	
Caremark Rx	78.3	
XTO Energy	63.3	
Gilead Sciences	62.1	
eBay	54.9	
Constellation Energy Group	50.7	
WellPoint	47.5	
EOG Resources	46.8	
BOTTOM TEN (THREE-YEAR)	PERCENT CHANGE	
Dynegy	-28.6%	
CBS	-17.6	

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

El Paso	-16.6
J.C. Penney	-14.9
Cooper Tire & Rubber	-11.2
Clear Channel Communs.	-9.7
ConAgra Foods	-9.6
CMS Energy	-9.3
Citizens Communications	-7.2
MeadWestvaco	-6.8

#### NET MARGIN Best/Worst, S&P 500

TOP TEN (2005)	PERCENT
Ambac Financial Group	45.3%
ProLogis	42.7
Public Storage	41.2
MGIC Investment	41.1
Linear Technology	40.3
Gilead Sciences	40.1
QUALCOMM	37.4
Yahoo	36.1
Burlington Resources	35.7
Apache	35.2

BOTTOM TEN (2005)	PERCENT
Ciena	-85.0%
CBS	-57.2
Dynegy	-34.7
JDS Uniphase	-32.3
Unisys	-30.1
El Paso	-17.3
XL Capital	-11.2
Eastman Kodak	-10.2
Sanmina-SCI	-8.9
Tenet Healthcare	-6.5

#### LONG-TERM EARNINGS GROWTH Best/Worst, S&P 500

TOP TEN	(2005)	EST. GROWTH
	RATE	
Nabors Industries	59.5%	
Newmont Mining	50.0	
Transocean	50.0	
Noble	43.0	
Rowan	33.0	
Yahoo!	25.7	
Jabil Circuit	25.0	
National Oilwell Varco	25.0	
eBay	25.0	
Weatherford Intl.	25.0	
	EST. GROWTH	
	RATE	
BOTTOM TEN (2005)		
Citizens Communications	1.0%	

The Best Performers 2006; With oil prices high, energy's strong showing in this year's rankings is no surprise. But a closer look finds a host of companies that have scored big by building i

United States Steel	2.0
Qwest Communications	2.0
CenturyTel	2.5
Merck	2.7
Verizon Communications	3.0
American Electric Power	3.0
Equity Residential	3.0
Consolidated Edison	3.5
Progress Energy	3.5

Data: Standard & Poor's Compustat, Thomson First Call

**GRAPHIC:** illustration, Illustration: Chart: Evolution: The 50 Through The Years CHART BY RAY VELLA/BW

**LOAD-DATE:** March 30, 2006

# **EXHIBIT I**



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**BusinessWeek**

Business Week

April 24, 2006

**SECTION:** Special Report; Pg. 62 Vol. 3981

**LENGTH:** 4253 words

**HEADLINE:** THE WORLD'S MOST INNOVATIVE COMPANIES;

Their creativity goes beyond products to rewiring themselves. BusinessWeek and the Boston Consulting Group rank the best.

**BYLINE:** By Jena McGregor, with Michael Arndt and Robert Berner in Chicago, Ian Rowley and Kenji Hall in Tokyo

**BODY:**

It was a fitting way to wrap up the first day of IBM's innovation-themed leadership forum, held in Rome in early April. Guests were treated to small group tours of the Vatican Museum, including Michelangelo's frescoes in the Sistine Chapel. They sipped cocktails on a patio in the back of St. Peter's, the vast dome of the basilica outlined by the light of the moon. They dined in a marble-statue-filled hall inside the Vatican. What better place than Italy to hold a global confab on innovation, the topic du jour among corporate leaders? It was, after all, the birthplace of the Renaissance, another period of great innovation and change.

The next day, at the Auditorium Parco della Musica, 500-odd corporate executives, government leaders, and academics listened as a diverse group of innovative leaders took the stage. Sunil B. Mittal, chief executive officer of Indian telecom company Bharti Tele-Ventures Ltd., described his radical business model, which outsources everything but marketing and customer management, charges 2 cents a minute for calls, and is adding a million customers a month. Yang Mingsheng, CEO of Agricultural Bank of China, the country's second-biggest commercial bank, spoke of building a banking powerhouse from a modest business making micro loans to peasant farmers.

Their stories echoed a comment IBM CEO Samuel J. Palmisano had made the day before: "The way you will thrive in this environment is by innovating -- innovating in technologies, innovating in strategies, innovating in business models."

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the Boston Consulting Group rank the best. Business Week April 24, 2006

Palmisano, to be sure, was making a subtle pitch for IBM and its ability to help the assembled leaders do well in an increasingly challenging business environment. But he also summed up the broad focus of innovation in the 21st century.

Today, innovation is about much more than new products. It is about reinventing business processes and building entirely new markets that meet untapped customer needs. Most important, as the Internet and globalization widen the pool of new ideas, it's about selecting and executing the right ideas and bringing them to market in record time.

In the 1990s, innovation was about technology and control of quality and cost. Today, it's about taking corporate organizations built for efficiency and rewiring them for creativity and growth. "There are a lot of different things that fall under the rubric of innovation," says Vijay Govindarajan, a professor at Dartmouth College's Tuck School of Business and author of *Ten Rules for Strategic Innovators: From Idea to Execution*. "Innovation does not have to have anything to do with technology."

### THE QUICK AND THE BLOCKED

To discover which companies innovate best -- and why -- BusinessWeek joined with The Boston Consulting Group to produce our second annual ranking of the 25 most innovative companies. More than 1,000 senior managers responded to the global survey, making it our deepest management survey to date on this critical issue.

The new ranking has companies evoking all types of innovation. There are technology innovators, such as BlackBerry maker and newcomer Research In Motion Ltd., which makes its debut on our list at No. 24. There are business model innovators, such as No. 11 Virgin Group Ltd., which applies its hip lifestyle brand to ho-hum operations such as airlines, financial services, and even health insurance. Process innovators are there, too: Rounding out the ranking is Southwest Airlines Co. at No. 25, a whiz at wielding operational improvements to outfly its competitors.

At the top of the list are the masters of many genres of innovation. Take Apple Computer Inc., once again the creative king. To launch the iPod, says innovation consultant Larry Keeley of Doblin Inc., Apple used no fewer than seven types of innovation. They included networking (a novel agreement among music companies to sell their songs online), business model (songs sold for a buck each online), and branding (how cool are those white ear buds and wires?). Consumers love the ease and feel of the iPod, but it is the simplicity of the iTunes software platform that turned a great MP3 player into a revenue-gushing phenomenon.

Toyota Motor Corp., which leapt 10 spots this year to No. 4, is becoming a master of many as well. The Japanese auto giant is best known for an obsessive focus on innovating its manufacturing processes. But thanks to the hot-selling Prius, Toyota is earning even more respect as a product innovator. It is also collaborating more closely with suppliers to generate innovation. Last year, Toyota launched its Value Innovation strategy. Rather than work with suppliers just to cut costs of individual parts, it is delving further back in the design process to find savings spanning entire vehicle systems.

The BusinessWeek-BCG survey is more than just a Who's Who list of innovators. It also focuses on the major obstacles to innovation that executives face today. While 72% of the senior executives in the survey named innovation as one of their top three priorities, almost half said they were dissatisfied with the returns on their investments in that area.

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the Boston Consulting Group rank the best. Business Week April 24, 2006

The No. 1 obstacle, according to our survey takers, is slow development times. Fast-changing consumer demands, global outsourcing, and open-source software make speed to market paramount today. Yet companies often can't organize themselves to move faster, says George Stalk Jr., a senior vice-president with BCG who has studied time-based competition for 25 years. Fast cycle times require taking bets even when huge payoffs aren't a certainty. "Some organizations are nearly immobilized by the notion that [they] can't do anything unless it moves the needle," says Stalk. In addition, he says, speed requires coordination from the hub: "Fast innovators organize the corporate center to drive growth. They don't wait for [it] to come up through the business units."

Indeed, a lack of coordination is the second-biggest barrier to innovation, according to the survey's findings. But collaboration requires much more than paying lip service to breaking down silos. The best innovators reroute reporting lines and create physical spaces for collaboration. They team up people from across the org chart and link rewards to innovation. Innovative companies build innovation cultures. "You have to be willing to get down into the plumbing of the organization and align the nervous system of the company," says James P. Andrew, who heads the innovation practice at BCG.

Procter & Gamble Co. (No. 7) has done just that in transforming its traditional in-house research and development process into an open-source innovation strategy it calls "connect and develop." The new method? Embrace the collective brains of the world. Make it a goal that 50% of the company's new products come from outside P&G's labs. Tap networks of inventors, scientists, and suppliers for new products that can be developed in-house.

The radically different approach couldn't be shoehorned into managers' existing responsibilities. Rather, P&G had to tear apart and restitch much of its research organization. It created new job classifications, such as 70 worldwide "technology entrepreneurs," or TEs, who act as scouts, looking for the latest breakthroughs from places such as university labs. TEs also develop "technology game boards" that map out where technology opportunities lie and help P&Gers get inside the minds of its competitors.

To spearhead the connect-and-develop efforts, Larry Huston took on the newly created role of vice-president for innovation and knowledge. Each business unit, from household care to family health, added a manager responsible for driving cultural change around the new model. The managers communicate directly with Huston, who also oversees the technology entrepreneurs and managers running the external innovation networks. "You want to have a coherent strategy across the organization," says Huston. "The ideas tend to be bigger when you have someone sitting at the center looking at the company's growth goals."

#### ASKING THE RIGHT QUESTIONS

Coordinating innovation from the center is taken literally at BMW Group, No. 16 on the list. Each time BMW begins developing a car, the project team's members -- some 200 to 300 staffers from engineering, design, production, marketing, purchasing, and finance -- are relocated from their scattered locations to the auto maker's Research and Innovation Center, called FIZ, for up to three years. Such proximity helps speed up communications (and therefore car development) and encourages face-to-face meetings that prevent late-stage conflicts between, say, marketing and engineering. In 2004 these teams began meeting in the center's new Project House, a unique structure that lets them work a short walk from the company's 8,000 researchers and developers and alongside life-size clay prototypes of the car in development.

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the boston consulting group rank the best. Business Week April 24, 2006

For many companies, cross-functional collaborations last weeks or months, not years. Southwest recently gathered people from its in-flight, ground, maintenance, and dispatch operations. For six months they met for 10 hours a week, brainstorming ideas to address a broad issue: What are the highest-impact changes we can make to our aircraft operations?

The group presented 109 ideas to senior management, three of which involve sweeping operational changes. One solution about to be introduced will reduce the number of aircraft "swaps" -- disruptive events that occur when one aircraft has to be substituted for another during mechanical problems. Chief Information Officer Tom Nealon says the diversity of the people on the team was crucial, mentioning one director from the airline's schedule planning division in particular. "He had almost a naive perspective," says Nealon. "His questions were so fundamental they challenged the premises the maintenance and dispatch guys had worked on for the last 30 years."

Managers are scrambling to come up with ways to measure and raise the productivity of their innovation efforts. Yet the BusinessWeek-BCG survey shows widespread differences over which metrics -- such as the ratio of products that succeed, or the ROI of innovation projects -- should be used and how best to use them. Some two-thirds of the managers in the survey say metrics have the most impact in the selection of the right ideas to fund and develop. About half say they use metrics best in assessing the health of their company's innovation portfolio. But as many as 47% said measurements on the impact of innovation after products or services have been launched are used only sporadically.

Actually, most managers in the survey aren't monitoring many innovation metrics at all; 63% follow five gauges or fewer. "Two or three metrics just don't give you the visibility to get down to root causes," says BCG's Andrew. Then there are companies that track far too many. Andrew says one of the top innovators on our list -- he's mum as to which one -- collects 85 different innovation metrics in one of its businesses. "That means they manage none of them," he says. "They default to a couple, but they spend an immense amount of time and effort collecting those 85."

The sweet spot is somewhere between 8 and 12 metrics, says Andrew. That's about the number that Samsung Electronics Co. uses, says Chu Woosik, a senior vice-president at the South Korean company. Chu says the most important metrics are price premiums and how quickly they can bring to market phones that delight customers. Samsung also watches the allocation of investments across projects and its new-product success ratio. That, Chu says, has nearly doubled in the last five years. "You want to see it from every angle," he says. "A lot of companies fall into the trap that they thought things were really improving, but in the end, it didn't work out that way. We don't want to make that mistake."

#### AWARDS AND ETHNOGRAPHY

One of the biggest mistakes companies may make is tying managers' incentives too directly to specific innovation metrics. Tuck's Govindarajan warns that linking pay too closely to hard innovation measures may tempt managers to game the system. A metric such as the percentage of revenue from new products, for instance, can lead to incremental brand extensions rather than true breakthroughs. In addition, innovation is such a murky process that targets are likely to change. "There's a dialogue that needs to happen," says Govindarajan. "Operating plans may need to be reviewed, or you may need to change plans because a new competitor came into your space."

Susan Schuman, CEO of Stone Yamashita Partners, which works with CEOs on innovation and change, says that besides numbers-driven metrics, some clients are adding subjective assess-

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ments related to innovation, such as a manager's risk tolerance, to performance evaluations. "It's not just about results," she says. "It's how did you lead people to get to those results."

That's one reason the bastion of Six Sigma-dom, General Electric Co., has begun evaluating its top 5,000 managers on "growth traits" that include innovation-oriented themes such as "external focus" and "imagination and courage." GE has also added more flexibility into its traditionally rigid performance rankings. GE will now have to square its traditional Six Sigma metrics, which are all about control, with its new emphasis on innovation, which is more about managing risk. That's a major change in culture.

How do you build an innovation culture? Try carrots. Several companies on our list have formal rewards for top innovators. Nokia Corp. inducts engineers with at least 10 patents into its "Club 10," recognizing them each year in a formal awards ceremony hosted by CEO Jorma Ollila.

3M has long awarded "Genesis Grants" to scientists who want to work on outside projects. Each year more than 60 researchers submit formal applications to a panel of 20 senior scientists who review the requests, just as a foundation would review academics' proposals. Twelve to 20 grants, ranging from \$50,000 and \$100,000 apiece, are awarded each year. The researchers can use the money to hire supplemental staff or acquire necessary equipment.

Of course, rewards won't help if the inventions aren't focused on customer needs. Getting good consumer insight is the fourth most cited obstacle to innovation in our survey. Blogs and online communities now make it easier to know what customers are thinking. Hiring designers and ethnographers who observe customers using products at work or at home helps, too. But finding that Holy Grail of marketing, the "unmet need" of a consumer, remains elusive. "You need time, just thinking time, to step out of the day to day to see what's going on in the world and what's going on with your customers," says Stone Yamashita's Schuman.

#### THE WORLD IS YOUR LAB

Try learning journeys. That's what Starbucks Corp., up 10 spots from 2005 to No. 9, does. While the coffee company began doing ethnography back in 2002 and relies on its army of baristas to share customer insights, it recently started taking product development and other cross-company teams on "inspiration" field trips to view customers and trends. Two months ago, Michelle Gass, Starbucks' senior vice-president for category management, took her team to Paris, Dusseldorf, and London to visit local Starbucks and other restaurants to get a better sense of local cultures, behaviors, and fashions. "You come back just full of different ideas and different ways to think about things than you would had you read about it in a magazine or e-mail," says Gass.

A close watch of customer insights can also bring innovation to even the most iconic and established products. Back in 2003, 3M began noticing and monitoring two consumer trends. One was troubling: Customers were using laptops, cell phones, and BlackBerrys to send quick memos or jot down bits of information. Every thumb-tapped message or stylus-penned note on a personal digital assistant meant one less Post-it note.

The other trend, however, was encouraging: the rise of digital photography. While observing consumers, 3M researchers asked to see their photos. What followed was always a clunky process: Consumers would scroll through screen upon screen of photos or have to dig through a drawer for the few shots they printed. Nine months later a team of one marketer and two lab scientists hit upon the idea of Post-it Picture Paper, or photo paper coated with adhesive that lets people stick their

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BusinessWeek and the Boston Consulting Group rank the best. Business Week April 24, 2006

photos to a wall for display. "We listened carefully to what consumers didn't say and observed what they did," says Jack Truong, vice-president of 3M's office supply division.

To get a sense of the value of customer research, imagine you're a Finnish engineer trying to design a phone for an illiterate customer on the Indian subcontinent. That's the problem Nokia faced when it began making low-cost phones for emerging markets. A combination of basic ethnographic and long-term user research in China, India, and Nepal helped Nokia understand how illiterate people live in a world full of numbers and letters. The result? A new "iconic" menu that lets illiterate customers navigate contact lists made up of images.

Other innovative ideas followed. By listening to customers in poorer countries, Nokia learned that phones had to be more durable, since they're often the most expensive item these customers will buy. To function in a tropical climate, it made the phones more moisture-resistant. It even used special screens that are more legible in bright sunlight.

Consumers increasingly are doing the innovation themselves. Consider Google Inc., our No. 2 innovator, and its mapping technology, which it opened to the public. This produced a myriad of "mash-ups" in which programmers combine Google's maps with anything from real estate listings to local poker game sites.

Google's mash-ups are just one example of the escalating phenomenon of open innovation. These days the world is your R&D lab. Customers are co-opting technology and morphing products into their own inventions. Many companies are scouting for outside ideas they can develop in-house, embracing the open-source movement, and joining up with suppliers or even competitors on big projects that will make them more efficient and more powerful. "When you work with outside parties, they bear some of the costs and some of the risks, and can accelerate the time to market," says Henry W. Chesbrough, the University of California at Berkeley Haas School of Business professor who helped establish the concept with his 2003 book, *Open Innovation*.

India and China are growing sources of innovation for companies, too. The BusinessWeek-BCG survey shows that they are nearly as popular as Europe among innovation-focused executives. When asked where their company planned to increase R&D spending, 44% answered India, 44% said China, and 48% said Western Europe. Managers tended to look to the U.S. and Canada for idea generation, while a lower percentage looked to Europe for the same tasks. India and China, though, are still seen as centers for product development.

Few companies have embraced the open innovation model as widely as IBM, No. 10 on our list. While the company's proprietary technology is still a force to behold -- Big Blue remains the world's largest patent holder, with more than 40,000 -- the company is opening up its technology to developers, partners, and clients. Last year it made 500 of its patents, mainly for software code, freely available to outside programmers. And in November it helped fund the Open Invention Network, a company formed to acquire patents and offer them royalty-free to help promote the open-source software movement.

Why the generosity? IBM believes that by helping to create technology ecosystems, it will benefit in the long run. "We want to do things that encourage markets to grow," says Dr. John E. Kelly III, senior vice-president for technology and intellectual property at IBM. By helping nurture those markets, says Kelly, "we know we'll get at least our fair share."

GOING OUTSIDE FOR IDEAS

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
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P&G has helped establish several outside networks of innovators it turns to for ideas the company can develop in-house. These networks include NineSigma, which links up companies with scientists at university, government, and private labs; YourEncore Inc., which connects retired scientists and engineers with businesses; and yet2.com Inc., an online marketplace for intellectual property.

Only a CEO can change a business culture at top speed, and in Alan G. Lafley, P&G has its own innovator-in-chief. Lafley sits in on all "upstream" R&D review meetings, 15 a year, that showcase new products. He also spends three full days a year with the company's Design Board, a group of outside designers who offer their perspective on upcoming P&G products. "He's sort of the chief innovation officer," says P&G's Huston. "He's very, very involved."

That sort of support from the CEO is essential, says Jon R. Katzenbach, co-founder of New York-based management consultancy Katzenbach Partners LLC. "The CEO determines the culture," he says. "If the CEO is determined to [improve] the surfacing of ideas and determined to make critical choices, then the chances of an [organization's] figuring that out are much, much greater."

Infosys Technologies Ltd., the Bangalore-based information technology services company that popped up at No. 10 on our Asia-Pacific list, takes a direct approach to making sure management stays involved in the innovation process. Chairman and "chief mentor" N.R. Narayana Murthy introduced the company's "voice of youth" program seven years ago.

Each year the company selects nine top-performing young guns -- each under 30 -- to participate in its eight yearly senior management council meetings, presenting and discussing their ideas with the top leadership team. "We believe these young ideas need the senior-most attention for them to be identified and fostered," says Sanjay Purohit, associate vice-president and head of corporate planning. Infosys CEO Nandan M. Nilekani concurs: "If an organization becomes too hierarchical, ideas that bubble up from younger people [aren't going to be heard]."

Mike Lazaridis, president and co-CEO of Research In Motion, hosts an innovation-themed, invitation-only "Vision Series" session in the Waterloo (Ont.)-based company's 100-seat auditorium each Thursday. The standing-room-only meetings focus on new research and future goals for the company that gave us the BlackBerry.

Lazaridis is likely the only chief executive of a publicly traded company who has an Academy Award for technical achievement. (He won it in 1999 for an innovative bar-code reader that he helped invent that expedites film editing and production.) He has donated \$100 million of his own money to fund a theoretical physics institute and an additional \$50 million to a university quantum computing and nanotechnology engineering center in Waterloo. He has even appeared in an American Express commercial, scratching complex equations across a blackboard while proclaiming his commitment to the creative process. "I think we have a culture of innovation here, and [engineers] have absolute access to me," says Lazaridis. "I live a life that tries to promote innovation." As the BusinessWeek-BCG survey demonstrates, it is a life every manager around the world must embrace.

## PLAYBOOK: BEST-PRACTICE IDEAS

Ideas from the Innovators

Take a page from some of the world's most respected creative companies:

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the boston consulting group rank the best. Business Week April 24, 2006

#### Bring them together

BMW relocates between 200 and 300 engineers, designers, and managers to its central research and innovation center to design cars. Face-to-face teams reduce late-stage conflicts and speed development times.

#### Think traits as well as numbers

Tracking innovation results is crucial for any growth-focused company. But when evaluating managers, subjective metrics, such as risk tolerance or GE's measure of "imagination and courage," can be a better way.

#### Make a seat at the table

Infosys selects nine employees under 30 each year to participate in its senior management sessions. These young guns present their ideas for new services and ways to improve the company's processes.

#### Preserve oral traditions

Old-timers at 3M are expected to hand down tales of the company's long innovation tradition to new engineers. Before long, every new 3Mer can quote the philosophies of former CEO William McKnight.

#### Get involved on the ground

Research In Motion co-CEO Mike Lazaridis personally heads engineering teams and hosts weekly innovation-themed "vision" sessions to excite the troops. A culture of innovation starts from the top.

#### A Global Pulse of Innovation

Apple and Google reign worldwide. But respondents from different regions often favored local companies.\*

#### ASIA-PACIFIC

1 Apple

2 Google

3 3M

4 Samsung

5 Microsoft

6 IBM

7 GE

8 Toyota

9 Nokia

10 Infosys

11 Virgin

12 P&G

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the boston consulting group rank the best. Business Week April 24, 2006

13 Dell

14 Sony

15 Intel

EUROPE

1 Apple

2 Google

3 Nokia

4 Microsoft

5 3M

6 Toyota

7 Virgin

8 BMW

9 GE

10 eBay

11 IKEA

12 RyanAir

13 Sony

14 Intel

15 Porsche

NORTH AMERICA

1 Apple

2 Google

3 P&G

4 3M

5 Toyota

6 GE

7 Starbucks

8 Microsoft

9 IBM

10 Dell

11 Wal-Mart

12 IDEO

THE WORLD'S MOST INNOVATIVE COMPANIES; Their creativity goes beyond products to rewiring themselves.  
BusinessWeek and the boston consulting group rank the best. Business Week April 24, 2006

13 Target

14 Samsung

15 Southwest

Data: Boston Consulting Group \*We broke ties by comparing 10-year annualized total shareholder returns. In ties between a public and a private company, the public company was favored.

**GRAPHIC:** illustration, Table: The World's 25 Most Innovative Companies (This table is not available electronically. Please see the April 24, 2006 issue.)

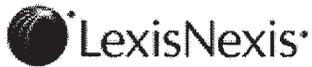
illustration, Illustration: Chart: The Enemies of Innovation CHART BY LAUREL DAUNIS-ALLEN/BW

illustration, Illustration: Chart: Clear Facts for a Hazy Process CHART BY LAUREL DAUNIS-ALLEN/BW

illustration, Illustration: Chart: Where Innovation Resources Are Going CHART BY LAUREL DAUNIS-ALLEN/BW

**LOAD-DATE:** April 20, 2006

# **EXHIBIT J**



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September 15, 2006

**SECTION:** RANDOM SAMPLING; Pg. 3

**LENGTH:** 57 words

**HEADLINE:** A few of our favorite things

**BODY:**

For the seventh year in a row, Sony tops the list of best brands among U.S. consumers, according to a poll released in July by Rochester, N.Y.-based Harris Interactive Inc. The online survey, which polled more than 2,300 adults in June, showed that Dell retained the No. 2 spot, while Coca-Cola, previously in fourth position, moved up to No. 3.

**GRAPHIC:** Picture 1, Best of the best: Ten most highly regarded brands among U.S. consumers, 1. Sony. Top ranked since 2003.

Picture 2, 2. Dell. Second-ranked in 2005 and 2006.

Picture 3, 3. Coca-Cola. No. 2 in 2004, seventh in 2003.

Picture 4, 4. Toyota. Sixth in 2005.

Picture 5, 5. Ford. Consistently in middle of top 10.

Picture 6, 6. Honda. Seventh in '04, '05.

Picture 7, 7. HP. 10th last year.

Picture 8, 8. General Electric. As high as fourth in 2003.

Picture 9, 9. Kraft. Down from third in '05.

Picture 10, 10. Apple Computer. First top 10 appearance.

**LOAD-DATE:** September 22, 2006

# **EXHIBIT K**



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February 2, 2007 Friday 8:15 PM EST

**SECTION:** LINUX/RELIABILITY

**LENGTH:** 519 words

**HEADLINE:** Survey: Microsoft's Corporate Reputation Ranks Supreme

**BYLINE:** Deborah Perelman

**HIGHLIGHT:**

Jumping seven places from its rank the year prior, Microsoft came in first place in national corporate reputation, according to a survey released by Harris Interactive.

**BODY:**

Jumping seven places from its rank the year prior, Microsoft came in first place in national corporate reputation according to a survey released by Harris Interactive on Feb. 1.

Falling behind Microsoft, Johnson & Johnson ranked second in corporate reputation, and 3M ranked number three.

"Sixty-nine percent of respondents rated the reputation of corporate America as either 'good' or 'terrible.' This context makes the significant RQ score increases among companies like Merck, Royal Dutch Shell, AT&T, Apple, Microsoft, 3M and others that much more impressive. Corporations today need to measure, understand and holistically manage their corporate reputation and leverage it as an asset. Those who do, find that ratings and rankings take care of themselves," said Robert Fronk, senior vice president for the brand and strategy consulting group at Harris Interactive.

Companies were evaluated from along six dimensions, from leadership and vision, social responsibility, emotional appeal, products and services to workplace environment and financial performance.

In a change from previous years' surveys, this year the subgroups of the general public were examined to determine if their views of corporate reputation would differ from the population at large.

Among "influentials"--named such because they had close or personal knowledge of the corporation, or because they held a public office--views of corporate reputation barely differed from the main group.

Microsoft remained in first place, but 3M shifted to the second while Johnson & Johnson slipped to fourth. This group tended to be more pessimistic about the state of corporate reputations today, with more than half (53 percent) feeling that it has declined (versus 44 percent of non-influentials).

To read more about the tech sector's outlook, [click here](#).

However, a second subgroup, "general investors"--those with long-term financial services investments with the company, beyond a 401(k)--showed a sharply differing view of corporate reputation. This group placed Google in first place (up from fourth among the full sample), Toyota second (up six places from the full responses), and shifted Microsoft into third place.

Survey: Microsoft's Corporate Reputation Ranks Supreme Server IQ.com February 2, 2007 Friday 8:15 PM EST

"In the case of Microsoft, we find a company that, while always scoring well in our annual study, there were certainly perceptual challenges regarding elements of its reputation," said Fronk.

"By focusing on the root causes of these perceptions and not just imagery or messaging, they were able to achieve higher levels of credibility with the general public. These types of perception shifts are not accidental and the value is nearly immeasurable."

Other companies filling out the top 10 ranks of corporate reputation were, in order from fourth to tenth place, Google, Coca-Cola, General Mills, UPS, Sony, Toyota and Procter & Gamble.

Among notable technology or Web-based companies, Amazon ranked 11th, Apple 22nd, Dell 23rd and IBM 26th.

Check out eWEEK.com's Careers Center for the latest news, analysis and commentary on careers for IT professionals. *This article was originally published on eWeek.com.*

**LOAD-DATE:** February 13, 2007

# **EXHIBIT L**



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March 19, 2007  
U.S. Edition

**SECTION:** AMERICA'S MOST ADMIRER COMPANIES; Pg. 92 Vol. 155 No. 5

**LENGTH:** 315 words

**HEADLINE:** The World's Most Admired Companies

**BYLINE:** Eugenia Levenson

**BODY:**

Consistency is king when it comes to the global Most Admired Companies list. Eight of last year's top ten made a return appearance, with General Electric leading the pack for the seventh time in nine years. Toyota kept its No. 2 position, while Apple continued its meteoric rise to No. 5, outstripping Microsoft (No. 8). Europe's most admired, BMW, rose to its highest position in the global survey's history at No. 9. It's no accident that the two non-U.S. firms in the top ten are carmakers. American giants aren't even in the game: Honda, which rose eight places to No. 23, was the only other auto company to place this year.

U.S. firms still dominate the rest of the global list, whose top 50 rankings are based on votes across industry lines from 1,506 executives and analysts in 26 countries. American companies claimed 35 out of 50 spots and all but five of the top 25 positions. But they also accounted for the list's steepest drops. Tech giant Dell, ranked third as recently as 2005, plunged 20 spots to No. 27 as it grappled with an SEC investigation, slowing sales, and a management shakeup. Home Depot lost the most ground in the wake of a sluggish housing market and ex-CEO Robert Nardelli's controversial reign. The retailer dropped 24 places to land at No. 39. Last year's biggest loser, Sony, continued its slide to No. 41 as PlayStation 3 and the Blu-ray DVD format disappointed.

The winners? British retailer Tesco, whose aggressive expansion will take it into the U.S. this year, rose 13 places to No. 30. Disney, the lone entertainer in the crowd, jumped 17 spots to No. 16. And Boeing, which fell off the list in 2004, returned at No. 19 after winning market share from its struggling rival Airbus.

**BOX STORY:**

**THE TOP TEN**

1. General Electric
2. Toyota Motor
3. Procter & Gamble

4. Johnson & Johnson
5. Apple
6. Berkshire Hathaway
7. FedEx
8. Microsoft
9. BMW
10. PepsiCo

**NOTES:** See also related article on page 88 of same issue.; See also cover story on page 98 of same issue.

**GRAPHIC:** PHOTO: SEAN GALLUP--GETTY IMAGES; FINE DETAIL Finishing touches at a BMW plant

**LOAD-DATE:** March 5, 2007

# **EXHIBIT M**



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**BusinessWeek**

Business Week

March 26, 2007

**SECTION:** The BusinessWeek 50 -- The Best Performers; Pg. 58 Vol. 4027

**LENGTH:** 1880 words

**HEADLINE:** The 2007 Best Performers;

This year's list is chock full of companies that are rewriting the rules in their industries. They are the agitators, the pioneers, and the game-changers that are leading the way in the 21st century

**BYLINE:** By Dean Foust, with Michael Mandel, Frederick F. Jespersen, and David Henry in New York

**BODY:**

When it comes to anticipating fashion trends, many apparel makers rely on the intuition of a charismatic designer like Ralph Lauren or a savvy executive like Mickey Drexler. But not the folks at Coach Inc.. Every year, the New York maker of women's handbags assiduously interviews more than 60,000 of its customers through Internet questionnaires, phone surveys, and face-to-face encounters with shoppers at the 300 stores. Such intense market research has helped Coach executives spot trends well before the herd, and this in turn has helped it to extend the brand far beyond the leather bags that long were its trademark and into watches, accessories, and clothing. After hearing customers complain that they couldn't find decent carry-on luggage for weekend getaways, for example, the company in July, 2006, launched its "Signature Stripe" travel bags--a new line that accounted for a hefty 15% of Coach's sales of full-priced merchandise during the first month out of the gate.

That ability to peer around corners ahead of competitors has paid off big for Coach shareholders: Sales have grown an average of 29% over each of the past three years, fueling a strong 63% averaged return on invested capital during the same period. Such stellar performance was enough to earn Coach the No.2 spot in this year's BusinessWeek 50, our 11th annual ranking of the best-performing companies in the Standard & Poor's 500-stock index. "This research gives us a real competitive advantage," acknowledges Coach Chief Executive Lew Frankfort. "The only way for us to grow on a sustained basis was if we evolved as our consumers evolved."

The 2007 Best Performers; This year's list is chock full of companies that are rewriting the rules in their industries. They are the agitators, the pioneers, and the game-changers that are leadin

Companies in the BusinessWeek 50 represent our choices as the "best in class" from each of the 10 sectors that make up the S&P 500. To select this year's star performers, we first ran companies through a proprietary screen that we refined this year to emphasize two measures--how well each company's management has been using the capital at its disposal and sales growth. We also chose only the best performers from each sector, to ensure that we were rewarding true management excellence and not just the ability to ride the wake of a hot sector. And to provide the wisdom, perspective, and common sense that computers can't, BusinessWeek's editors and reporters reviewed each company on the list, making a limited number of changes where necessary.

### OUTSTANDING CLASS

The result may be one of the strongest groups of companies in the 11 years that we've conducted this annual search for the best performers. The Class of 2007 is chock full of companies that are rewriting the rules of engagement in their industries. They are the agitators, the pioneers, and the game changers that are leading the way in the 21st century. Case in point: This year's top performer, Google Inc., is using the same mastery of algorithms that enabled it to dominate Internet search to launch innovative new services, including one brokering advertising for traditional media. The rankings also include dynamic companies such as Nucor (No. 4), which has deployed technology and cutting-edge employee-incentive programs to stand the steel industry on its head, and Apple (No. 34), which is trying to revolutionize cell phones in the same way it did music players.

Our screening also produced the names of smaller companies playing at the top of their game, such as Rockwell Collins Inc. (No. 24) and Varian Medical Systems Inc. (No. 14). They're joined by outfits ranging from Best Buy (No. 32) to payroll manager Paychex (No. 40) to Black & Decker (No. 45). What distinguishes many of these organizations is a deep understanding of customers, a competitive advantage that has enabled them to sell more goods and services than rivals.

Best Buy, for example, recognized that computer buyers were nervous about fixing their desktop machines and developed its popular Geek Squad home PC repair service. For Paychex, a tight bond with customers has enabled it not just to manage payrolls for its small-business customers but also to provide tax services and benefits consulting. This type of constant innovation is increasingly critical for companies, given the shrinking lifespan of business plans. Chris Zook, head of the global strategy practice at Bain & Co. and author of the forthcoming management book *Unstoppable: Finding Hidden Assets to Renew the Core and Fuel Profitable Growth*, says his research shows that the average "shelf life" of business strategies has shrunk by roughly 50% over the past 15 years. The reason? "Globalization. Capital moves faster, and differentiations are harder to defend," he says. "But companies that are able to extend their franchise are able to achieve a new surge in growth, which is one of the hardest acts in business."

Zook points to United Parcel Service Inc., which clocked in at No.33 in this year's rankings. With its basic business of delivering packages turning into a mature business growing in the mid-single digits, Atlanta-based ups conducted extensive customer research that revealed that many of its corporate shippers were looking to offload the chore of managing their supply chains, which would free them to focus on their core businesses. So ups went on an investment binge that today enables it to do everything from managing warehouses for customers to helping run clients' entire global transportation network. For some customers, it even handles repairs: If you own a Toshiba Corp. laptop that needs fixing, Toshiba provides an 800 number that's actually manned by ups, which dispatches a ups driver to pick up the broken laptop for shipping to a ups warehouse in Louisville, where ups-trained technicians fix it before shipping it back, via ups, of course. That diversi-

The 2007 Best Performers; This year's list is chock full of companies that are rewriting the rules in their industries. They are the agitators, the pioneers, and the game-changers that are leadin

fication has enabled Toshiba to focus on its core business of designing and building computers, and helped ups boost its sales an average 13% over each of the past three years. "ups is not just a transportation company anymore. It's an information technology company focusing on transportation," says David Simchi-Levi, a professor and supply-chain expert at Massachusetts Institute of Technology. "There is going to be a lot of demand for such services, and ups is perfectly positioned to deliver them efficiently."

## STAYING FRESH

Inevitably, powerful macroeconomic forces helped shape this year's BW 50 rankings. The Class of 2007 includes a number of energy companies that are basking in the sharp rise in oil prices over the past two years: Sunoco (No.6), EOG Resources (No.20), Valero Energy (No.36), and xto Energy (No.49). And the housing boom taking place in recent years helped give a lift to a number of companies on the list, including Bed Bath & Beyond (No.15), Sherwin-Williams (No.22), and even Moody's (No.29), which has enjoyed a booming business providing credit ratings for the trillions of dollars of mortgage-backed securities issued by Wall Street. (To avoid perceptions of favoritism, we excluded BusinessWeek's parent, The McGraw-Hill Companies, from the rankings, even though its performance would have earned it a spot in the top 50.)

If there's one common trait among these companies, it's the degree to which these companies don't take their success for granted. Truth is, many work hard to anticipate and head off potential problems well before outsiders are even aware of these looming challenges. That's the case at Starbucks Corp. (No. 28, its fourth consecutive appearance), where founder and Chairman Howard Schultz recently sent other executives a memo--leaked by an employee to a Starbucks blog--questioning whether such labor-saving initiatives as having baristas use automatic espresso machines was leading to what he called the "commoditization" of the Starbucks experience.

Fearful that the tech services market will one day revolve around price and price alone, Cognizant Technology Solutions Corp. (No.12) ceo Francisco D'Souza is feverishly working to ensure that he differentiates his services from what is offered by competitors. To that end, Cognizant has begun hiring mbas who are experts in banking and other industries to work with customers such as JPMorgan Chase & Co. onsite to help tailor Cognizant's service to each client's specific business. And it is constantly adding higher-value services--everything from testing new software to implementing the sprawling software platforms developed by the likes of SAP and Oracle. "We have to be constantly focused on staying fresh in the eyes of our customers because the [info-tech service] companies who do nothing won't be there long term," says D'Souza. That strategy has paid off in spades for Cognizant shareholders, who have seen shares rise 57% over the past year.

What BW 50 companies share is an unshakable passion for excellence. This year we've selected a handful of our star performers to profile: Allegheny Technologies Inc., a producer of specialty metals that's doing a brisk business selling to the resurgent aircraft manufacturers; Oracle, which has expanded its software suite through a flurry of acquisitions; and commercial broker CB Richard Ellis Group, which is helping real estate developers fill all those gleaming new office towers going up around the globe. We also took a look at Lehman Brothers Inc., which has moved far beyond its roots as a bond dealer to become a force in M&A, and Stryker, whose artificial hips and knees have become the rage among aging boomers.

The 2007 Best Performers; This year's list is chock full of companies that are rewriting the rules in their industries. They are the agitators, the pioneers, and the game-changers that are leadin

To round out this year's package, we've included brief snapshots of each of the BusinessWeek 50 companies as well as statistical tables that provide rankings for each of the year's best performers.

#### The 2007 Best Performers

- 1 Google
- 2 Coach
- 3 Gilead Sciences
- 4 Nucor
- 5 Questar
- 6 Sunoco
- 7 Verizon Communications
- 8 Colgate-Palmolive
- 9 Goldman Sachs Group
- 10 PACCAR
- 11 Amazon.Com
- 12 Cognizant Technology Solutions
- 13 Avon Products
- 14 Varian Medical Systems
- 15 Bed Bath & Beyond
- 16 CB Richard Ellis Group
- 17 Robert Half International
- 18 Chicago Mercantile Exchange
- 19 Adobe Systems
- 20 EOG Resources
- 21 Sempra Energy
- 22 Sherwin-Williams
- 23 Lehman Brothers
- 24 Rockwell Collins
- 25 IMS Health
- 26 Allegheny Technologies
- 27 Oracle
- 28 Starbucks
- 29 Moody's
- 30 PepsiCo
- 31 Stryker
- 32 Best Buy
- 33 United Parcel Service
- 34 Apple
- 35 T. Rowe Price Group
- 36 Valero Energy
- 37 Constellation Energy Group
- 38 TJX
- 39 Morgan Stanley
- 40 Paychex
- 41 Coventry Health Care
- 42 United States Steel
- 43 United Technologies
- 44 Hershey
- 45 Black & Decker
- 46 Synovus Financial
- 47 Linear Technology
- 48 AT&T
- 49 XTO
- 50 PNC Financial Services

The 2007 Best Performers; This year's list is chock full of companies that are rewriting the rules in their industries. They are the agitators, the pioneers, and the game-changers that are leadin

### Sector Snapshot

The BW 50 rewards companies that outperform industry peers. But weak companies in strong sectors, of course, still sometimes post better numbers than strong companies in weak sectors. Here's a look at how each of the 10 sectors in the S&P 500 have performed annually over the past three years.\*

	Median Average Return On Investment**	Media Average Annual Sales Growth
ConsumerStaples	24.3%	6.1%
Energy	23.3	26.0
Health Care	22.1	10.1
Financials	21.0	13.9
Industrials	19.2	10.7
Consumer Discretionary	19.0	9.1
Materials	18.1	9.3
Information Technology	15.1	12.8
Telecommunication Services	11.0	1.3

Utilities 10.4 7.5

Data: Standard & Poor's Compustat

\*Figures exclude companies that were removed from consideration because of incomplete data and other reasons.

\*\*Median return on shareholder equity for the financial sector.

**LOAD-DATE:** March 22, 2007

# **EXHIBIT N**



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**BusinessWeek**

Business Week

May 14, 2007

**SECTION:** Special Report; Pg. 54 Vol. 4034

**LENGTH:** 423 words

**HEADLINE:** THE WORLDS 25 MOST INNOVATIVE COMPANIES

**BYLINE:** Staff

**BODY:**

To determine our 2007 list, the Boston Consulting Group asked nearly 2,500 executives worldwide to vote for the most pioneering companies doing business today. Not surprisingly, Apple and Google once again prevailed. But a few new names broke in to the top 25: Walt Disney shot up to No. 8, aided by the Steve Jobs effect (the Mouse House acquired Pixar in early 2006), for instance, and Boeing rose to No. 21 behind its revolutionary new jet, the 787 Dreamliner.

There were also reminders of the resilience of corporate reputation. No. 11 Wal-Mart suffers from slow growth but still commands respect for its supply-chain innovations. Dell wears the brand halo of an innovator for its efficient direct-to-consumer model, though it has struggled to adapt to a shifting computer market and fell from No. 14 to No. 22.

In October, 2006, BCG sent the survey electronically to the 1,500 largest global corporations, determined by market capitalization. They were asked to pass it to their top 10 executives in charge of innovation. We also distributed it to senior management members of the BusinessWeek Market Advisory Board (an online reader panel) and via the Knowledge@Wharton e-mail newsletter. Participation was voluntary and anonymous. The survey--20 general questions on innovation and an optional 12 focused on metrics--closed in March. All told, 2,468 executives answered. To avoid vote-stuffing, self-votes were eliminated and respondents were asked to identify the most innovative company outside their industry.

For an extended list of the top 50, rankings by industry, and more on our methodology and BCG's analysis, go to [businessweek.com/go/innovativecompanies/](http://businessweek.com/go/innovativecompanies/)

## THE WORLDS 25 MOST INNOVATIVE COMPANIES Business Week May 14, 2007

Analysis and data provided in collaboration with the innovation practice of The Boston Consulting Group, BCG-ValueScience, along with Standard & Poor's Compustat data and company reports. We broke ties by comparing one-year total shareholder returns between 12/30/05 and 12/29/06.

\*Stock returns are annualized, 12/31/01 to 12/29/06, and account for price appreciation and dividends. Compound growth rates for operating margins are based on 2001-06 data as it was originally stated. Operating margin is earnings before interest and taxes as a percentage of revenue. Where possible, quarterly and semiannual data are used to bring performance for pre-June year ends closer to December, 2006. Financial figures are calculated in local currency.

\*\*Calculating compound annual growth rates for operating margins was not possible whenever figure was negative.

Insufficient data.

**GRAPHIC:** illustration, Table: The World's 25 Most Innovative Companies (This table is not available electronically. Please see the May 14, 2007 issue.)

**LOAD-DATE:** May 14, 2007

# **EXHIBIT O**



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August 13, 2007

**SECTION:** Pg. 23(1) Vol. 24 No. 12 ISSN: 1080-0794

**ACC-NO:** 168333453

**LENGTH:** 101 words

**HEADLINE:** Harris says Coca-Cola is No. 1 brand;  
**SUPPLY SIDE;**  
Brief article;  
Company rankings

**BODY:**

ROCHESTER, N.Y. -- Consumers rank Coca-Cola as the No. 1 brand, according to the latest Harris Poll of "best brands," moving from No. 3 last year and reaching the top position for the first time ever.

The annual survey, which was conducted by Harris Interactive in June, pointed out changes in consumer perceptions.

Sony, which had been No. 1, dropped to No. 2. Toyota moved to No. 3 from the fourth position while Dell, which had been the No. 2 brand, dropped to No. 4. Ford (No. 5), Kraft Foods (No. 6), Pepsi Cola (No. 7), Microsoft (No. 8), Apple (No. 9) and Honda (No. 10) rounded out the top 10 companies.

**LOAD-DATE:** September 7, 2007

# **EXHIBIT P**



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March 17, 2008  
U.S. Edition

**SECTION:** FEATURES; AMERICA'S MOST ADMIRABLE COMPANIES; Pg. 65 Vol. 157 No. 5

**LENGTH:** 968 words

**HEADLINE:** America's Most Admired Companies

**BYLINE:** ANNE FISHER

**HIGHLIGHT:**

Apple's ability to innovate is legendary. But the other companies that make the grade in our 26th annual ranking have hatched plenty of their own brilliant ideas. The payoff? It keeps them strong in good times and bad.

**BODY:**

It's an impressive hat trick: Apple not only takes the No. 1 slot on this year's list of America's Most Admired Companies but also tops the global survey and wins the highest marks for innovation too. That's probably no coincidence. In an industry that changes every nanosecond, the 32-year-old company has time and again innovated its way out of the doldrums. Rivals always seem to be playing catch-up.

The 19 other companies on our Top 20 list are no slouches at creating new markets and disrupting old ones either. Of course, many of the innovations that the Most Admired bring to market are incremental small, steady improvements that take a product that is already good and make it better. "With \$100-a-barrel crude oil and a looming recession, we have to innovate to survive," notes Bob Jordan, head of technology and strategy at Southwest Airlines (No. 12). So in 2007 the carrier streamlined its boarding procedures and added a deluxe program to keep high-revenue business travelers coming back. Southwest is also adding onboard wireless Internet access and putting efficiency-boosting winglets on its aircraft to cut fuel use. Or look at FedEx (No. 7 in the U. S., No. 6 worldwide), which last year introduced its Smart Package. Used for transporting delicate goods like human organs, the package is wired so that both shipper and recipient can track its location at all times, gauge its temperature and humidity, and get an alert if it's damaged.

High-tech innovations often grab the limelight, but some nifty new ideas are downright prosaic. Consider the humble rotisserie chicken. A few years ago an employee at Costco Wholesale (tied at No. 14, and a newcomer to the list) noticed that most supermarkets were selling 2 3/4-pound rotisserie chickens for \$7.99. "We thought we could do better," says CFO Richard Galanti. So store buyers met with farmers and persuaded them to grow bigger chickens. (State-of-the-art bioengineering? "No," explains Galanti. "You just let them live longer, so they eat more." Oh.) Last year Costco unveiled its 3 1/4-pound rotisserie chicken at \$4.99 and sold more than 40 million.

Sounds simple enough, but it isn't. One common error is to mistake invention for innovation; they are not the same thing. Invention is the creation of something new. Innovation is the creation of something new that makes money; it finds a pathway to the consumer. The problem: You can't just ask consumers what they want or need, because they often have only the foggiest idea. To get around that conundrum, 3M (No. 19) sends its 9,000 technical employees into customers' workplaces in 34 countries to work alongside people and see what their problems are. Procter & Gamble (No. 8) does something similar (see page 120). Others take their cue from customers' complaints; sometimes those customers also happen to be employees. An engineer at Google (No. 4) got fed up with the volume of e-mail in his in-box and designed a couple of ways to get a grip on it. One, sorting the messages by thread, lets users easily put all messages on a single topic together. The other allows for unlimited storage of old e-mails so they're out of the way now but can be searched later. Turns out that lots of customers were yearning to tame their e-mail: Since the introduction of Gmail, those two features have proved the most popular.

A big, game-changing innovation can seem silly at first. Toyota (No. 3 on the global list and No. 5 in the U.S.) has weathered such skepticism and ended up in front of the pack. "Gasoline cost only about \$1.30 a gallon when we launched the Prius in the U.S. in 2000," recalls Toyota president Katsuaki Watanabe. "A lot of observers questioned whether Americans would buy a car whose main selling points were fuel economy and low emissions." Although Honda (No. 18 on the global list) was the first to market with a hybrid (see page 100), Toyota has had the most success, selling 1.8 million Priuses to date.

If the disparate companies on our lists have one thing to teach less admired companies, it's to keep right on investing in innovation even when times are tough. Goldman Sachs (No. 10) doesn't produce a tangible product, but wherever there's money to be made no matter what mood the economy is in the company finds away to be there (see page 130). "A difficult economic environment argues for the need to innovate more, not pull back," says American Express CEO Ken Chenault. A few months ago he established a \$50 million innovation fund to finance "employees' ideas for how to transform our business long term. We want great ideas to come from all over the company, not just the chain of command," Chenault says. AmEx (No. 13) has a venerable history of making risky moves during downturns. Back in 1958, despite a slumping economy, the company launched a little thing called the American Express card. "When I first came here, I saw a copy of a letter from an analyst that earnestly explained to our then chairman why the card was a terrible idea and how it would cannibalize our traveler's check business," says Chenault. "It was an impeccably logical argument that couldn't have been more wrong."?

For more on the Most Admired Companies, go to [fortune.com/mostadmired](http://fortune.com/mostadmired).

#### BOX STORY:

1. Apple
2. Berkshire Hathaway
3. General Electric
4. Google
5. Toyota Motor
6. Starbucks
7. FedEx
8. Procter & Gamble
9. Johnson & Johnson

10. Goldman Sachs
  11. Target
  12. Southwest Airlines
  13. American Express
  14. BMW (tie)
  14. Costco (tie)
  16. Microsoft
  17. UPS
  18. Cisco Systems
  19. 3M
  20. Nordstrom
- BOX STORY:
1. Apple
  2. General Electric
  3. Toyota Motor
  4. Berkshire Hathaway
  5. Procter & Gamble
  6. FedEx
  7. Johnson & Johnson
  8. Target
  9. BMW
  10. Microsoft
  11. Costco Wholesale
  12. UPS
  13. IBM (tie)
  13. PepsiCo (tie)
  15. Cisco Systems
  16. Boeing

17 Wal-Mart Stores

18. Honda Motor

19. Coca-Cola

20. Caterpillar

**NOTES:** See also 7 related articles on pages 68 - 130 of same issue.

**GRAPHIC:** TWENTY PHOTOS: DAVIES & STARR; 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

**ILLUSTRATION:** LETTERING BY UPNORTH

**LOAD-DATE:** March 3, 2008

# **EXHIBIT Q**



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March 17, 2008  
U.S. Edition

**SECTION:** FEATURES; AMERICA'S MOST ADMIRABLE COMPANIES; Pg. 68 Vol. 157 No. 5

**LENGTH:** 3051 words

**HEADLINE:** WHAT MAKES APPLE GOLDEN

**BYLINE:** BETSY MORRIS; REPORTER ASSOCIATE Joan L. Levinstein

**HIGHLIGHT:**

The creator of the iPod and iPhone sets a dazzling new standard for innovation and mass appeal, driven by an obsessive CEO who wants his products to be practically perfect in every way. Fortune takes a close look at Apple's core values. PLUS: an exclusive interview with Steve Jobs.

**BODY:**

The mass market is supposed to be dead, but you would never know it from Apple. In February the iTunes Store became the second-largest music retailer in the U. S., right behind Wal-Mart. The iPod is to music players what Kleenex is to tissue or Xerox is to copiers. Almost everything Apple makes transcends gender, geography, age, and race. An Apple Store is a demographic melting pot, with computer games for kids and a Genius Bar for their parents and so much cool stuff to touch that it's a magnet for teens and twentysomethings.

Apple scoffs at the notion of a target market. It doesn't even conduct focus groups. "You can't ask people what they want if it's around the next corner," says Steve Jobs, Apple's CEO and co-founder. At Apple, new-product development starts in the gut and gets hatched in rolling conversations that go something like this: What do we hate? (Our cellphones.) What do we have the technology to make? (A cellphone with a Mac inside.) What would we like to own? (You guessed it, an iPhone.) "One of the keys to Apple is that we build products that really turn us on," says Jobs.

With that simple formula, Apple not only has upstaged the likes of Microsoft but has set the gold standard for corporate America with an entirely new business model: creating a brand, morphing it, and reincarnating it to thrive in a disruptive age. Now, just seven years after it unveiled the first iPod, fully half of Apple's revenues come from music and iPods. Interest in the iPod and iPhone has rubbed off on the Mac, whose sales growth outpaces the industry's. Apple has demonstrated how to create real, breathtaking growth by dreaming up products so new and ingenious that they have upended one industry after another: consumer electronics, the record industry, the movie industry, video and music production.

In the process the company that ranks as the new No. 1 among America's Most Admired Companies has become a

## WHAT MAKES APPLE GOLDEN Fortune March 17, 2008

roaring financial success. In the five years ended last September, sales tripled to \$24 billion and profits surged to \$3.5 billion, up from \$42 million. While Apple's stock is slumping along with the market, tumbling 40% this year on worries about less-than-stratospheric sales growth, it doesn't usually stay down for long. Apple ranks No. 1 among Fortune 500 companies for total return to shareholders over both the past five years (94%) and the past ten (51%).

The decade coincides exactly with the return of Jobs as Apple's maestro, bringing his particular mix of genius and obsession, as well as a tendency to play by his own rules (see the following story). His utter dedication to discovery and excellence has created a culture that has made Apple a symbol of innovation. You won't find that word on a placard or apiece of propaganda at One Infinite Loop, Apple's headquarters in Cupertino, Calif. There innovation is a way of life. But it isn't like creating new variations on Crest toothpaste. At Apple, every endeavor is a moon shot. Sometimes the company misses, but the successes are huge. Apple's goal for iPhone sales this year is ten million units, up from 3.7 million during its six months on sale in 2007.

Apple requires a special kind of workforce. The place is divided by product but also by function along what COO Tim Cook calls "very faint lines." Collaboration is key. So is a degree of perfectionism. Apple hires people who are never satisfied. A designer has to be a borderline fanatic to care about the curve of a screw on the underside of a MacBook Air or the apparent weightlessness of the tiny door that hides its connectors. You don't get a foot in the door here unless your eyes light up when you talk about your Mac. (Head designer Jonathan Ive referred to a new MacBook Air as "this guy" as he pointed out features in a recent interview.) The place is loaded with engineers, but it's not just the skills that are important, it's the ability to emote. ("Emotive" is a big word here.) The passion is what provides the push to overcome design and engineering obstacles, to bring projects in on time and a peer pressure so great it sometimes causes a team to eject a weak link or revolt against an underperforming boss. "Apple," says Cook, "is not for the faint of heart."

Here there is no such thing as hedging your bets. "One traditional management philosophy that's taught in many business schools is diversification. Well, that's not us," says Cook. "We are the antibusiness school." Apple's philosophy goes like this: Too many companies spread themselves thin, making a profusion of products to defuse risk, so they get mired in the mediocre. Apple's approach is to put every resource it has behind just a few products and make them exceedingly well. Apple is brutal about culling past hits: The company dropped its most popular iPod, the Mini, on the day it introduced the Nano (a better product, higher margins why dilute your resources?).

Apple might look like a high-wire act. But while success is never guaranteed, it's not random either. Ownership of its operating system gives Apple an unusual degree of control over its ability to design, change, and adapt. That allows Apple to follow the product with no preconceptions about where it will end up. The iPod has evolved from a device the size of a deck of cards to a Nano to a Shuffle and now to a Touch. The Touch, says Cook, "has another roadmap in front of it" if it becomes, as he predicts, the first mainstream Wi-Fi mobile device. "Apple's DNA has always been to try to democratize technology," says Jobs, in the belief that if you make something "really great, then everybody will want to use it." Who would have thought that a cult brand like Apple would be resuscitating a mass market? Jobs and his true believers have proved that if you're bold enough to build it, they will come.

#### STEVE JOBS ON APPLE'S CHEMISTRY

Fortune senior editor Betsy Morris spoke with Jobs in February in Kona, Hawaii, where he was vacationing with his family, on the keys to Apple's success, obstacles along the way, and the prospect of Apple without Steve Jobs.

#### On the birth of the iPhone

We all had cellphones. They were so awful to use. The software was terrible. The hardware wasn't very good. We talked to our friends, and they all hated their cellphones too. And we saw that these things really could become much more powerful. It's a huge market. I mean, a billion phones get shipped every year, and that's almost an order of magnitude greater than the number of music players. It's four times the number of PCs that ship every year.

## WHAT MAKES APPLE GOLDEN Fortune March 17, 2008

It was a great challenge: Let's make a great phone that we fall in love with. Nobody had ever thought about putting operating systems as sophisticated as OS X inside a phone, so that was a real question. We had a big debate inside the company whether we could do that or not. And that was one where I had to adjudicate it and just say, "We're going to do it. Let's try." The smartest software guys were saying they can do it, so let's give them a shot. And they did.

#### On Apple's connection with the consumer

It's not about pop culture, and it's not about fooling people, and it's not about convincing people that they want something they don't. We figure out what we want. And I think we're pretty good at having the right discipline to think through whether a lot of other people are going to want it too. That's what we get paid to do.

#### On choosing strategy

We do no market research. We just want to make great products. When we created the iTunes Music Store, we did that because we thought it would be great to be able to buy music electronically, not because we had plans to redefine the music industry. I mean, it just seemed like writing on the wall that eventually all music would be distributed electronically. Why have all this [cost] when you can just send electrons around easily?

#### On Apple's focus

People think focus means saying yes to the thing you've got to focus on. But that's not what it means at all. It means saying no to the 100 other good ideas that there are. You have to pick carefully. I'm actually as proud of many of the things we haven't done as the things we have done. The clearest example was when we were pressured for years to do a PDA, and I realized one day that 90% of the people who use a PDA only take information out of it on the road. They don't put information into it. Pretty soon cellphones are going to do that, so the PDA market's going to get reduced to a fraction of its current size. So we decided not to get into it. If we had gotten into it, we wouldn't have had the resources to do the iPod.

#### On what drives Apple employees

We don't get a chance to do that many things, and every one should be really excellent. Because this is our life. Life is brief, and then you die, you know? So this is what we've chosen to do with our life. We could be sitting in a monastery somewhere in Japan. We could be out sailing. Some of the [executive team] could be playing golf. They could be running other companies. And we've all chosen to do this with our lives. So it'd better be damn good.

#### On why people want to work at Apple

The reason is because you can't do what you can do at Apple anywhere else. The engineering is long gone in PC companies. In the consumer electronics companies, they don't understand the software parts of it. And so you really can't make the products that you can make at Apple anywhere else right now. Apple's the only company that has everything under one roof. There's no other company that could make a MacBook Air, and the reason is that not only do we control the hardware, but we control the operating system. And it is the intimate interaction between the operating system and the hardware that allows us to do that. There is no intimate interaction between Windows and a Dell notebook.

#### On whether Apple could live without him

We've got really capable people at Apple. I made Tim [Cook] COO and gave him the Mac division, and he's done brilliantly. I mean, some people say, "Oh, God, if [Jobs] got run over by a bus, Apple would be in trouble." And, you know, I think it wouldn't be a party, but the board would have some good choices about who to pick as CEO. My job is to make the whole executive team good enough to be successors, so that's what I try to do.

#### On his demanding reputation

My job is to not be easy on people. My job is to take these great people we have and to push them and make them even better. How? Just by coming up with more aggressive visions of how it could be.

#### On dealing with roadblocks

## WHAT MAKES APPLE GOLDEN Fortune March 17, 2008

There always seems to come a moment where it's just not working. Take the iPhone. We had a different enclosure design for this iPhone until way too close to the introduction to ever change it. And I came in one Monday morning, and I said, "I just don't love this. I can't convince myself to fall in love with this. And this is the most important product we've ever done." And we pushed the reset button. We went through all the zillions of models we'd made and ideas we'd had. And we ended up creating what you see here as the iPhone, which is dramatically better. It was hell because we had to go to the team and say, "All this work you've [done] for the last year, we're going to have to throw it away and start over, and we're going to have to work twice as hard now because we don't have enough time." And you know what everybody said? "Sign us up." That happens more than you'd think, because this is not just engineering and science. There is art too. Sometimes when you're in the middle of one of these crises, you're not sure you're going to make it to the other end. But we've always made it, and so we have a certain degree of confidence, although sometimes you wonder.

#### On his management style

We've got 25,000 people at Apple. About 10,000 of them are in the stores. And my job is to work with sort of the top 100 people that's what I do. That doesn't mean they're all vice presidents. Some of them are just key individual contributors. So when a good idea comes, part of my job is to move it around, just see what different people think, get people talking about it, argue with people about it, get ideas moving among that group of 100 people.

#### On his marathon Monday meetings

When you hire really good people, you have to give them a piece of the business and let them run with it. That doesn't mean I don't get to kibitz a lot. But the reason you're hiring them is because you're going to give them the reins. I want [them] making as good or better decisions than I would. So the way to do that is to have them know everything, not just in their part of the business but in every part of the business. So what we do every Monday is we review the whole business. We look at what we sold the week before. We look at every single product under development products we're having trouble with, products where the demand is larger than we can meet. All the stuff in development, we review. And we do it every single week. We don't have a lot of process at Apple, but that's one of the few things we do just to all stay on the same page.

#### On finding talent

When I hire somebody really senior, competence is the ante. They have to be really smart. But the real issue for me is, Are they going to fall in love with Apple? Because if they fall in love with Apple, everything else will take care of itself. They'll want to do what's best for Apple, not what's best for them, what's best for Steve, or anybody else.

Recruiting is hard. It's finding the needles in the haystack. I've participated in the hiring of maybe 5,000-plus people in my life. I take it very seriously. You can't know enough in a one-hour interview. So in the end, it's ultimately based on your gut. How do I feel about this person? What are they like when they're challenged? Why are they here? I ask everybody that: "Why are you here?" The answers themselves are not what you're looking for. It's the meta-data.

#### On the iPod tinning point

It was difficult for a while because for various reasons the Mac had not been accepted by a lot of people, who went with Windows. And we were just working really hard, and our market share wasn't going up. It makes you wonder sometimes whether you're wrong. Maybe our stuff isn't better, although we thought it was. Or maybe people don't care, which is even more depressing.

It turns out with the iPod we got out from that operating-system glass ceiling. It was great because [it showed that] Apple innovation, Apple engineering, Apple design, did matter. The iPod captured 70% market share. I cannot tell you how important that was to Apple after so many years of laboring and seeing a 4% to 5% market share on the Mac. It was a great shot in the arm for everybody.

#### On what they did next

We made more. We worked harder. We said, "This is great. Let's do more." I mean, the Mac market share is going up

every single quarter. We're growing four times faster than the industry. We've helped it along. We put Intel processors in, and we can run PC apps alongside Mac apps. But I think a lot of it is that people have finally started to realize that they don't have to put up with Windows that there is an alternative. I think nobody really thought about it that way before.

#### On catching tech's next wave

Things happen fairly slowly, you know. They do. These waves of technology, you can see them way before they happen, and you just have to choose wisely which ones you're going to surf. If you choose unwisely, then you can waste a lot of energy, but if you choose wisely, it actually unfolds fairly slowly. It takes years. One of our biggest insights [years ago] was that we didn't want to get into any business where we didn't own or control the primary technology, because you'll get your head handed to you. We realized that for almost all future consumer electronics, the primary technology was going to be software. And we were pretty good at software. We could do the operating system software. We could write applications like iTunes on the Mac or even PC. We could write the software in the device, like you might put in an iPod or an iPhone. And we could write the back-end software that runs on a cloud, like iTunes. So we could write all these different kinds of software and tweed it all together and make it work seamlessly. And you ask yourself, What other companies can do that? It's a pretty short list.

#### On falling, so far, with Apple TV

Here's how I look at it Everybody's tried to make a great product for the living room. Microsoft's tried, we've tried everybody's tried. And everybody's failed. And that's why I call it a hobby. It's not a business yet; it's a hobby. We've come out with our second try "Apple TV, Take 2" is what we call it internally. We realized that the first product we did was about helping you take the content from your computer and wirelessly send it to your TV. Well, it turns out that's not what people really wanted to do. I mean, yeah, it's nice to see your photos up on the big screen. That's frosting on the cake, but it's not the cake. What everybody really wanted, it turned out, was movies. So we began the process of talking to Hollywood studios and were able to get all the major studios to license their movies for rental. We only have about 600 movies so far ingested on iTunes, but we'll have thousands later this year. Will this resonate and be something that you just can't live without and love? We'll see. I think it's got a shot.

#### On managing through the economic downturn

We've had one of these before, when the dot-com bubble burst. What I told our company was that we were just going to invest our way through the downturn, that we weren't going to lay off people, that we'd taken a tremendous amount of effort to get them into Apple in the first place the last thing we were going to do is lay them off. And we were going to keep funding. In fact we were going to up our R&D budget so that we would be ahead of our competitors when the downturn was over. And that's exactly what we did. And it worked. And that's exactly what we'll do this time.

#### Steve Jobs online

For an extended interview, go to [fortune.com/mostadmired](http://fortune.com/mostadmired).

FEEDBACK [bmorris@fortunemail.com](mailto:bmorris@fortunemail.com)

"WHEN I HIRE SOMEBODY, THEY HAVE TO BE REALLY SMART. BUT THE REAL ISSUE FOR ME IS, ARE THEY GOING TO FALL IN LOVE WITH APPLE? IF THEY DO, EVERYTHING ELSE WILL TAKE CARE OF ITSELF."

**NOTES:** See also introduction on page 65 of same issue.; See also cover story on page 88 of same issue.

**GRAPHIC:** PHOTO: DAN SAELINGER

PHOTO: JONATHAN SPRAGUE REDUX; APPLE'S JUICE MAM ANNOUNCING THE IPHONE IN JANUARY 2007, JOBS STIRRED A PASSIONATE LEVEL OF INTEREST NEVER HAD A PHONE BEEN SO DESIRED.

PHOTO: CHRIS MALUSZYNSKI MOMENT/REDUX; STORE FOR EVERYONE APPLE'S FIFTH AVENUE SHOWCASE IN MANHATTAN WAS AN INSTANT HIT, DRAWING TENS OF THOUSANDS OF VISITORS A

WEEK.

**LOAD-DATE:** March 3, 2008

# **EXHIBIT R**



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### THE WALL STREET JOURNAL

The Wall Street Journal

April 23, 2008 Wednesday

**SECTION:** Pg. B1

**LENGTH:** 1238 words

**HEADLINE:** Slow Slog for Amazon's Digital Media --- Earnings Today May Provide Data On What Works

**BYLINE:** By Mylene Mangalindan

**BODY:**

Zack Harris is quick to list the benefits of Amazon.com Inc.'s digital music store, including low prices. But the 14-year-old is sticking with Apple Inc.'s iTunes service. "I think iTunes is much better," says the Glencoe, Ill., high-school freshman.

Mr. Harris's loyalty to iTunes is an example of the hurdles Amazon faces as it tries to get a series of digital-media initiatives off the ground. With information on the efforts' results hard to come by, analysts are likely to look closely for data on how they're faring when Amazon reports quarterly earnings Wednesday. Jeetil Patel, who tracks the company for Deutsche Bank, estimates Amazon has invested \$300 million in the initiatives over the past three years. But he puts the annual revenue they have produced so far at less than \$100 million, a fraction of Amazon's \$14.8 billion total.

For example, the Seattle-based Web retailer won praise when its store of downloadable music, introduced in September, offered songs without anticopying technology. It also priced songs at 89 cents to 99 cents, well below the \$1.29 that iTunes was charging for songs without copyright protection. (iTunes has since lowered that price to 99 cents.)

But so far Amazon's music store hasn't had much impact on the iTunes lead. According to research firm NPD Group, Amazon ranked second behind iTunes in music-track sales in February, but iTunes unit sales were 10 times as high as Amazon's. Apple's iTunes, which has more than 80% of the U.S. market for digital-music downloads, is now the top-ranked music retailer in the U.S., selling more than four billion songs since its launch in April 2003.

Amazon is also branching out to other areas beyond its maturing business of selling books and other physical goods over the Internet. During the past three years, it has invested in such efforts as an electronic short-form literature program, an online DVD rental business, and a digital-book service paired with a reading device called the Kindle.

The Amazon efforts attracted wide attention initially, but signs of success have been scant. The company's Unbox download service of TV shows and movies has attracted a very small audience, analysts say. Its other new digital businesses, including the Kindle e-book reader and the literary-shorts program, remain fledgling businesses at best. Amazon in February sold its European online DVD rental business to LoveFilm International, though it is now the biggest shareholder in LoveFilm.

In some cases, analysts say, Amazon has either been late to a market -- its digital-music store lagged behind Apple's by four years -- or it has tried to move into markets such as digital books where consumer demand isn't yet established.

One reason for its tardiness in music: Until music companies relaxed their insistence on anticopying software, Amazon couldn't sell music downloads that worked on Apple's iPod, by far the most popular digital music player. It ultimately was able to offer music in an unprotected MP3 format, which plays on virtually any device, including the iPod. Still, Apple retains a big advantage because of the degree to which it can integrate its iPods with iTunes.

In other markets such as short-form literature and electronic-book reading, Amazon may be ahead of people used to paper books. "They're going to face the consumer inertia," says Mike McGuire, an analyst at market research firm Gartner.

Amazon CEO Jeff Bezos has said that the company needs to offer digital goods so that it will be ready for the time when consumers want them. The company began the strategy in 2005, launching efforts that included a Web broadcast of its 10th anniversary concert; Amazon Pages, which lets users buy just the book pages they want; and an original Web broadcast called "Amazon Fishbowl With Bill Maher."

Drew Herdener, an Amazon spokesman, says the company now considers the Kindle, the music-download store, and Unbox to be the primary ingredients in its digital-media push because they are the only initiatives that sell goods in digital form. Mr. Herdener says that it's still early for the music store and the Kindle, which were both introduced late last year, but that the company is "very happy" with all three initiatives.

Analysis by outsiders is difficult because Amazon has thus far disclosed few numbers for its digital-media products. Consider the Kindle. Unveiled in November to much fanfare, the \$399 reader quickly sold out, according to Amazon, which won't identify the manufacturer or disclose its sales figures. Because Amazon sells the electronic-book reader only through its Web site, retailers also have no insight into the number sold, nor do market-research firms, which depend on company-disclosed data. But the company appears to be catching up with demand. While many consumers faced long waits initially, Amazon's Web site indicates the device is in stock.

Numbers on Amazon's Unbox video-download service have also been elusive. The company says 30,000 videos are available, but it hasn't disclosed any data on revenue, users or downloads. Market research firm comScore Inc. tracks Web site visitors and transactions, but video-rental downloads tend to be protected against copying, which is outside the scope of what comScore measures.

Nowhere is the picture more clouded than at Amazon's music-download store. The company spent years preparing the offering, signing major record labels such as Warner Music Group Corp. and Sony BMG Music Entertainment, and it plans to introduce the store to international markets this year. But in the 2007 fourth quarter, the MP3 store generated awareness among just 14% of respondents surveyed by NPD, whereas iTunes generated awareness among about 75%.

Recent data are more promising. In February, the single month for which NPD data are available, Amazon's MP3 store was in second place, ahead of Wal-Mart Stores Inc. and behind iTunes. NPD discloses only where companies rank, not specific sales figures or market-share percentages.

The Port Washington, N.Y., market-research firm also estimates that 64% of Amazon MP3 unit sales were traced to men, compared with 44% for iTunes. And it says Amazon MP3s showed "unexpected strength" among consumers 18 to 25 years old, and only 3% of its customers were teens, 13 to 17. iTunes, by contrast, sold 18% of its music to teens.

Slow Slog for Amazon's Digital Media --- Earnings Today May Provide Data On What Works The Wall Street Journal  
April 23, 2008 Wednesday

Amazon's MP3 store "doesn't seem to be siphoning off Apple users," says Russ Crupnick, an NPD analyst. Instead, it appears to be "growing the market" by allowing some of Amazon's music CD buyers to try purchasing music downloads, he says.

As for Amazon's Mr. Herdener, he says that the MP3 store is doing very well and that the company is pleased with its progress, though it's still too early to draw any conclusions.

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Nick Wingfield contributed to this article

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#### Digital Upgrade

Some of Amazon.com's digital-media initiatives

-- December 2004: Online DVD-rental business in Europe; sold to LoveFilm, February 2008

-- August 2005: Amazon Shorts, short-form literature available for download

-- November 2005: Amazon Upgrade, online access to a book after purchasing physical book; Amazon Pages, online purchase of book pages

-- September 2006: Amazon Unbox, video download service

-- September 2007: Amazon MP3, digital-music download service

-- November 2007: Amazon Kindle, electronic book reader

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#### NOTES:

PUBLISHER: Dow Jones & Company, Inc.

LOAD-DATE: April 24, 2008

# **EXHIBIT S**



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**BusinessWeek**

Business Week

April 28, 2008

**SECTION:** IN: Inside Innovation -- IN Focus: Introduction; Pg. 61 Vol. 4081

**LENGTH:** 1939 words

**HEADLINE:** 25 MOST INNOVATIVE COMPANIES: SMART IDEAS FOR TOUGH TIMES

**BYLINE:** By Jena McGregor

**BODY:**

Suddenly, innovation has a bull's-eye on its back. As the recession debate shifts from "what if" to "how long," slashing research and development budgets just got a lot more tempting. That high-risk product in your pipeline? It's about to get much more scrutiny. And the "chief innovation officer" your CEO brought in last year to show his commitment to creativity? He'd better start proving his worth. Outside consultants are starting to pick up on the effects of such belt-tightening. "I'm seeing it in my business," says Jeneanne Rae, president of Alexandria (Va.)-based consulting firm Peer Insight. "There's this sense of which shoe's going to drop next."

Others are seeing two camps emerge. "One is saying times are tough, so it's the most important time for us to innovate," says Scott Anthony, president of Innosight, a consultancy founded by Harvard Business School professor and innovation guru Clayton M. Christensen. "The other is saying 'we simply don't have the ability to think about innovation right now.' There's a real separation between the innovation haves and have-nots."

Among the haves are the 25 companies that make up the third annual BusinessWeek-Boston Consulting Group ranking of the World's Most Innovative Companies. They nurture cultures that value creative people in good times and bad. They develop a diverse portfolio of projects that helps them weather dud ideas. And no finger-wagging Wall Street analyst is going to keep them from doubling down on smart bets that will position them well when the economy rights itself again. "Strong companies understand this, and during a recession, they invest," says Eric Schmidt, chairman and CEO of Google, No. 2 on our list. "And they get pummeled for it: 'How could you do this? You're arrogant. The world is falling apart.'"

The good news: There can be an upside to the downturn. Low-cost methods for creating new products are easier than ever as emerging markets provide both cheap labor and booming pockets

for growth. That's something No. 4 General Electric is finding with its first portable electrocardiograph made in India for that market. Many companies, including No. 7 Nintendo, are embracing collaboration with outsiders in ways that lower costs for both them and their partners. And yes, it may even be possible to wring more efficiency out of your R&D labs, as No. 15 Hewlett-Packard is attempting to do, without stifling the creativity of your most valued people.

In the end, scarcity can be pretty good at prompting new ideas, says CEO Jeff Bezos of No. 11 Amazon.com. "Constraints," says the e-tail maverick, "drive innovation."

### THE 25 MOST INNOVATIVE COMPANIES

To determine our 2008 list of the 25 most innovative companies, the Boston Consulting Group once again asked executives to vote for the most pioneering companies in the last year. In a climate when innovation will be scrutinized more than ever, we added three financial measures. For 2008, votes cast in the BusinessWeek-BCG survey got an 80% weighting, while three-year revenue and margin growth each got 5% and stock returns were weighted 10%.

Apple again leads our list. But the added metrics and more global nature of our respondents produced new names. Tata Group and Nintendo both landed in the top 10 for the first time. And dark horses like struggling General Motors received a surprising number of votes, thanks to concept cars like the electric Volt and a renewed focus on design.

BCG sent the 17-question survey electronically in November to the 2,500 largest global corporations by market value. More than 2,950 executives responded, our largest sample ever. BCG also sent it to readers in senior management, including members of the BusinessWeek Market Advisory Board. Participation was voluntary and anonymous, and self-votes were eliminated. To compare financials of private companies, we used metrics equal to industry performance.

#### 1 Apple

Our three-time winner has rocked the wireless handset world with the iPhone, spurring rivals to imitate the touch-screen design. After just 10 months on sale, it's already No. 3 in the global smartphone market.

REVENUE GROWTH\*: 47%

MARGIN GROWTH\*: 69%

STOCK RETURN, \*\*: 83%

#### 2 Google

The search giant, which last year hiked R&D spending 72%, took on Microsoft with a push into online office software. This year Google will try to expand beyond search ads into banner and video ads.

REVENUE GROWTH\*: 73%

MARGIN GROWTH\*: 5%

STOCK RETURN, \*\*: 53%

#### 3 Toyota Motor

Determined to retain its mantle as the hybrid car leader, Toyota plans to roll out an even more fuel-efficient Prius in 2009. It's also trying to match rival GM's promise to deliver a plug-in gas-and-electric car.

REVENUE GROWTH\*: 12%

MARGIN GROWTH\*: 1%

STOCK RETURN,\*\*: 15%

4 General Electric

CEO Immelt is so encouraged by GE's "ecoimagination" initiative that he's upping the revenue target for green projects from \$20 billion to \$25 billion by 2010. This year, GE hired its own innovation "professor in residence."

REVENUE GROWTH\*: 9%

MARGIN GROWTH\*: 1%

STOCK RETURN,\*\*: 3%

5

Often mocked for following instead of leading, Microsoft tapped its vast research arm to launch Surface, a touch-screen computer. To catch up with Google, it's pouring more money into perfecting search algorithms.

REVENUE GROWTH\*: 16%

MARGIN GROWTH\*: 8%

STOCK RETURN,\*\*: 12%

6 Tata Group

The Mumbai-based conglomerate jumps onto our list for the first time, fueled by its \$2,500 car for the masses. The car is the world's cheapest, thanks partly to a distribution model that sells the auto in kits.

REVENUE GROWTH\*: private

MARGIN GROWTH\*: private

STOCK RETURN,\*\*: private

7 Nintendo

The video gamemaker is new to our top 25 after its wildly popular Wii console tapped an entirely new gaming audience. It recently launched a Wii fitness game that makes staying in shape a family affair.

REVENUE GROWTH\*: 37%

MARGIN GROWTH\*: 4%

STOCK RETURN,\*\*: 77%

8 Procter & Gamble

P&G has out-hustled rivals by turning to outsiders more often for consumer-products ideas. P&G is also creative about finding new markets: It is targeting overlooked neighborhood stores in developing regions.

REVENUE GROWTH\*: 16%

MARGIN GROWTH\*: 4%

STOCK RETURN, \*\*: 12%

9 Sony

With its electronics business healthy and Blu-ray the new DVD standard, Sony's priority is online content. Its PlayStation 3 video game consoles will soon feature Home, a 3D social-networking and gaming world.

REVENUE GROWTH\*: 8%

MARGIN GROWTH\*: 13%

STOCK RETURN, \*\*: 17%

10 Nokia

The Finnish handset maker leads in China and India thanks to input from anthropologists who study emerging markets. As it pushes into Web services, it's tapping outsiders to create games and offer feedback.

REVENUE GROWTH\*: 20%

MARGIN GROWTH\*: 2%

STOCK RETURN, \*\*: 35%

11 Amazon.com

Far more than an e-tailer of books and CDs, Amazon has added downloadable videos and MP3s. It's selling other companies the very Web services it uses to keep itself humming.

REVENUE GROWTH\*: 29%

MARGIN GROWTH\*: -11%

STOCK RETURN, \*\*: 28%

12 IBM

With 3,000 scientists at IBM Research, Big Blue has been the leading U.S. patent winner for 14 years in a row. Now the new head of research, John E. Kelly III, plans on making bigger and bolder bets.

REVENUE GROWTH\*: 1%

MARGIN GROWTH\*: 11%

STOCK RETURN, \*\*: 4%

13 Research In Motion

Twenty-eight million thumbs on 14 million devices say RIM still dominates the wireless e-mail market. The BlackBerry maker is now reaching into the consumer market, putting it on a collision course with Apple.

REVENUE GROWTH\*: 56%

MARGIN GROWTH\*: -1%

STOCK RETURN,\*\*: 51%

#### 14 BMW

While other carmakers talk about hybrids and electric motors, BMW has focused on getting the most out of existing technology. As a result, its latest models challenge Toyota's Prius for gas mileage and low emissions.

REVENUE GROWTH\*: 6%

MARGIN GROWTH\*: -5%

STOCK RETURN,\*\*: 11%

#### 15 Hewlett-Packard

The 69-year-old tech company's Innovation Program Office helps it absorb the startup vibes from recent acquisitions. A new "CloudPrint" service helps users send documents to printers from their mobile devices.

REVENUE GROWTH\*: 10%

MARGIN GROWTH\*: 17%

STOCK RETURN,\*\*: 35%

#### 16 Honda Motor

While most carmakers worry about high gas prices, sales of gas-sipping Hondas are growing. Next up, Honda will introduce clean diesels, small hybrids, and, in 2010, a private jet that's 30% more fuel-efficient.

REVENUE GROWTH\*: 12%

MARGIN GROWTH\*: 6%

STOCK RETURN,\*\*: 14%

#### 17 Walt Disney

Hollywood's leader with online offerings, Disney was first to ship its TV shows online. Now it's dreaming up social networks for kids, which let them become avatar "fairies" or join groups of pirate-playing gamers.

REVENUE GROWTH\*: 6%

MARGIN GROWTH\*: 14%

STOCK RETURN,\*\*: 7%

#### 18 General Motors

CEO Richard Wagoner Jr. is giving designers a first crack at new models before engineers. Add in hybrid-electric SUVs and plans for the high-mileage Volt, and it's clear GM is trying to shake its stodgy image.

REVENUE GROWTH\*: -2%

MARGIN GROWTH\*: na\*\*\*

STOCK RETURN,\*\*: -11%

#### 19 Reliance Industries

The Indian petrochemicals giant made it onto our list this year thanks to fans of its aggressive growth. But some of its ambitious plans, including efforts to reach into grocery retailing, have faltered.

REVENUE GROWTH\*: 31%

MARGIN GROWTH\*: -7%

STOCK RETURN,\*\*: 94%

#### 20 Boeing

The world is awaiting the arrival of Boeing's 787 Dreamliner, which promises to be lighter in weight and use 20% less fuel than conventional aircraft. However, the globally sourced project has been plagued by delays.

REVENUE GROWTH\*: 9%

MARGIN GROWTH\*: 32%

STOCK RETURN,\*\*: 21%

#### 21 Goldman Sachs

Sometimes innovative firms just know when to stop following the herd. When the subprime market started going belly-up, Goldman Sachs reversed its positions and made \$4 billion by shorting high-risk mortgages.

REVENUE GROWTH\*: 30%

MARGIN GROWTH\*: 6%

STOCK RETURN,\*\*: 28%

#### 22 3M

CEO George Buckley has been on a mission to kick-start growth. He's loosened the reins on his massive stable of researchers and plans to hike R&D spending to \$1.4 billion, or almost 6% of sales.

REVENUE GROWTH\*: 7%

MARGIN GROWTH\*: 5%

STOCK RETURN,\*\*: 3%

#### 23 Wal-Mart

With the same muscle it uses to drive down prices, the world's largest retailer is turning size to its advantage to become a leader in sustainability. It's helped vastly expand the market for energy-efficient light bulbs.

REVENUE GROWTH\*: 10%

MARGIN GROWTH\*: -2%

STOCK RETURN,\*\*: -2%

24 Target

Target continues to distinguish itself as a more upscale and trendy discounter. It recently launched "GO International," a series of clothing lines by high-end designers that sell for no more than 90 days.

REVENUE GROWTH\*: 11%

MARGIN GROWTH\*: 3%

STOCK RETURN,\*\*: 0%

25 Facebook

Making its first showing on our list, Facebook opened its platform to third-party developers. That sparked a wave of new programs and spurred major Web sites, such as Yahoo! and Google, to follow suit.

REVENUE GROWTH\*: private

MARGIN GROWTH\*: private

STOCK RETURN,\*\*: private

DATA: Analysis and data provided in collaboration with Boston Consulting Group's innovation practice and BCG-ValueScience. Reuters and Compustat supplied financial data; Bloomberg, total shareholder returns.

\* Revenue and operating margin growth is annualized based on 2004-2007 fiscal year earnings before interest and taxes, as a percent of revenues as they were originally stated. Where possible, quarterly and semiannual data were used to bring performance for pre-June yearends closer to December, 2007. Financial figures were calculated in local currency.

\*\* Stock returns are annualized, 12/31/04 to 12/31/07, and account for price appreciation and dividends.

\*\*\* Calculating 3-year compound annual growth rate for operating margins was not possible when either figure was negative.

**LOAD-DATE:** April 30, 2008

# **EXHIBIT T**



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Fortune

March 16, 2009  
U.S. Edition

**SECTION:** FEATURES; WORLD'S MOST ADMIRABLE COMPANIES, THE 50 ALL-STARS; Pg. 75 Vol. 159 No. 5

**LENGTH:** 2033 words

**HEADLINE:** The world's most admired companies 2009

**BYLINE:** GEOFF COLVIN

**BODY:**

In these turbulent times, a stellar reputation is a powerful asset.

THE WORLD'S MOST ADMIRABLE COMPANIES? In this environment isn't that sort of like the World's Most Trusted Con Men? World's Nicest Pit Bulls? Most Beautiful Slag Heaps? Isn't it just one giant contradiction? Actually, it isn't. The most admired companies in the world are truly admired still. It shouldn't be surprising: Any company that can perform well and maintain its good name during the worst recession in 75 years is arguably more admirable than the best performer during boom times. That's why Fortune's new corporate reputation rankings remain critically important this year. With admiration in such short supply, it's more valuable than ever and in a season of global economic tumult, reputation is more volatile than ever. For the first time, we present this year a single global ranking of corporate reputations. With the interlinked nature of the world economy painfully clear, it no longer made sense to generate separate lists of American and global companies. We've expanded this new directory beyond our previous global list to create the most comprehensive worldwide reputation ranking anywhere (for methodology, see box, "How We Conduct the Most Admired Survey," in "The List of Industry Stars").

And what a year to do it, as recession, corporate collapse, and scandal rolled around the world, hammering the reputation of business overall. The latest Trust Barometer from the Edelman public relations firm, which gauges trust in business and other institutions (but not in individual companies), found vertiginous drops in regard for business. Across 20 countries, 62% of respondents say they trust business less now than a year ago. Trust in U.S. business is even lower than it was after Enron and the dot-com bust.

Little wonder that we see increasing evidence of companies growing jealously protective of their reputations. Leslie Gaines-Ross, whose job at the Weber Shandwick public relations firm is helping companies build and fix reputations, recently experienced a first: She was asked to testify as an expert witness in a lawsuit over a company's damaged reputation. Morgan Stanley's new bonus plan specifies that bonuses can be clawed back from employees who cause "reputational harm" to the firm. You can even buy reputation insurance: A new product from the insurance broker Lockton will, in certain circumstances, "reimburse the named insured for reputation harm."

All of which makes you wonder what the Most Admired Companies have how they built and manage to keep this ever more precious asset of a sterling reputation. Hay Group management consulting firm, which collaborates with Fortune on the Most Admired research, has uncovered some answers. Most important is a strong, stable strategy, which confers important benefits in unstable times. Companies that change strategies must usually change organizational structures as well, and making that change in a recession is a heavy burden just when corporations can bear it least. It forces employees to focus inward rather than outward and becomes a giant sink of time and energy.

By contrast, companies whose strategies hold up in a recession, like those in the Most Admired, can press ahead undistracted and make major competitive gains. A good example is Southwest Airlines, No. 7 on the list and a Most Admired company for the past 13 years. It hasn't changed its strategy because of the recession in fact, it hasn't changed it in 38 years. As CEO Gary Kelly notes: "To this day we still operate one aircraft type, [the Boeing 737]. We still fly in the domestic U.S. We still operate with a single class of service. We just try to be really good at what we do." The Southwest strategy has worked great throughout business cycles, but it's especially effective now. As a low-fare carrier, says Kelly, "we tend to do very well comparatively in a recession-era environment, and we'll probably pick up a lot of business."

Southwest's example isn't unusual. Hay Group found that, in general, less admired companies change structures far more often than the Most Admired, the main reason being a strategy switch. An extreme example is the Detroit automakers, which are turning themselves inside out as they seek strategies for survival at a moment when they should be focused on serving buyers. By contrast, the Most Admired "are more confident in their strategies and as a result are more likely to use this opportunity for rapid expansion and a chance to take market share," says Mel Stark, who oversees Hay Group's research on the Most Admired. He found that the Most Admired are far likelier to be expanding globally now than are their less admired peers.

Just look at Coca-Cola (No. 12). Says CEO Muhtar Kent: "One thing we don't do in this crisis is cut marketing around the world. We continue to make sure that our brands stay healthy and that we exit this tunnel with more market share than when we went in." For strong companies, now is an especially good time to do that: "Crisis offer you the best opportunity to communicate with consumers because airwaves are cleaner there's much less congestion there," Kent points out.

Or consider McDonald's (No. 16), the rare company whose stock is actually higher than it was a year ago. CEO Jim Skinner says that in the 1990-91 recession, "the U.S. represented 58% of the revenues. Today it's only 35% of the revenues. We're in 118 countries." And not all of them are in recession, which makes them great places to find growth now.

Since the right strategy means a company needn't mess with its organizational structure, you may wonder what that magical winning structure is. Turns out there isn't one. Centralized, decentralized the Most Admired have every type of structure, Hay Group found. Similarly they share no common operating model. They'll even do the same things differently in different parts of their own company. "Procter & Gamble manages its brands very differently in developed markets than it does in developing markets," Stark observes.

What the Most Admired do share is a focus on identifying and developing talent globally. That's how they make those widely varying structures and operating models succeed: by spending plenty of money and effort on training managers to work within them. Johnson & Johnson chief Bill Weldon says one of the most important things his company (No. 5) is doing is "helping employees recognize that we're going to continue to invest in them and their development."

Even admired companies may have to lay people off in a historic recession; many on the list have done so. But because they realize the importance of human capital, their leaders try hard to avoid it. Southwest, famed for its titanium-strength culture, has never had layoffs. CEO Kelly makes no promises about maintaining the streak "No one can predict how this year is going to unfold" but he understands what's at stake. "It's one thing to say it, but you have to

prove to your people that you really do love them and care about them," he says. "And if you have layoffs every five years, or if you make a promise to your employees that you don't fulfill, and you do that often, well, it's kind of hard to hold out that your employees are really the most valued part of the company."

FedEx (No. 7) has undergone layoffs, but it has also cut pay, and the higher you go in the company, the greater the percentage cut. That saves jobs and helps stabilize the company. "All of our management compensation is heavily related to the performance of the company," says founder and CEO Fred Smith. "At the first-line management level it's maybe 15% or 20%. At my level it's 90%. So obviously, as the economy has gotten weaker, a lot of that expense has simply gone away." On top of those automatic adjustments, FedEx also announced in December that it was cutting the pay of salaried employees by 5% this year. Smith cut his own pay 20%.

Emulating those practices can do much to improve any company's performance and reputation. As always, and especially in this eventful period, other factors can also influence reputation, sometimes dramatically. A company's leader is critically important. Satyam Computer Services, once a leading Indian outsourcing firm, has thousands of smart, energetic, loyal employees but had one crooked CEO. The company was successful but is now for sale because that one man destroyed its name. Gaines-Ross of Weber Shandwick says, "The leader still makes or breaks a company's reputation we should never forget that."

In general the Most Admired are led by long-serving chiefs whose successions are orderly, no-surprises transitions. For that reason this may be a critical period for the No. 1 company, Apple. Steve Jobs, its CEO, co-founder, and guiding spirit, is on a six-month medical leave. Maybe he'll come back and serve many more years at the top. But if a transition is in the offing, Apple's knockout reputation will depend heavily on how the handoff goes and how the company holds up.

Similar issues will eventually face Berkshire Hathaway (No. 2), which is unimaginable without Warren Buffett. The reputational stakes are high: Berkshire is one of only three companies that have ranked No. 1 in their industry in all of our global Most Admired surveys, which started 12 years ago (the other two are General Electric and Procter & Gamble). But since Buffett seems hale and hearty at 78, we don't know when the issue will arise.

A company that faltered by this measure, but then found its footing, is Coca-Cola. After three messy successions, it has just completed a smooth and well regarded one, as Neville Isdell handed the CEO's job to Kent. The company has jumped from No. 19 to No. 12 in our ranking.

Now more than in many years a company's industry can also affect its reputation. One of the more striking social phenomena of the moment is that absolutely no one seems willing to identify himself or herself as a banker. No wonder. Edelman's Trust Barometer finds that in the U.S., trust in banks among 35- to 64-year-olds has dropped from 69% to 36% in just the past year.

Yet all trends can be defied. Look down our Most Admired list, and you'll find that the top 20 include three very powerful banks: J.P. Morgan Chase, Goldman Sachs, and Wells Fargo. In fact, Wells Fargo was No. 38 on last year's U.S. list but has jumped to No. 14 in the new global ranking. The bank bailed out of subprime mortgages in time to avoid disaster and remained strong enough to buy Wachovia when it went over the edge last fall.

That big move up exemplifies the most powerful lesson from the new survey. A time of economic misery doesn't have to harm a company's reputation. On the contrary, there's no greater opportunity to stand out. When so many are scorned, what better chance to be admired?

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Trust in U.S. business is even lower today than it was after the Enron scandal and the dot-com bust.

With admiration in such short supply today, a company's reputation is more valuable than ever.

BOX STORY:

1  
Apple  
U.S.

2  
Berkshire Hathaway  
U.S.

3  
Toyota Motor  
Japan

4  
Google  
U.S.

5  
Johnson & Johnson  
U.S.

6  
Procter & Gamble  
U.S.

7  
(TIE)  
FedEx  
U.S.

7  
(TIE)  
Southwest Airlines  
U.S.

9  
General Electric  
U.S.

10  
Microsoft  
U.S.

11  
Wal-Mart Stores  
U.S.

12  
Coca-Cola  
U.S.

13  
Walt Disney  
U.S.

14  
Wells Fargo  
U.S.

15  
Goldman Sachs Group  
U.S.

16  
McDonald's  
U.S.

17  
IBM  
U.S.

18  
3M  
U.S.

19  
Target  
U.S.

20  
J.P. Morgan Chase  
U.S.

21  
PepsiCo  
U.S.

22  
Costco Wholesale  
U.S.

23  
Nike  
U.S.

24  
Nordstrom  
U.S.

25  
Exxon Mobil  
U.S.

26  
Bank of America  
U.S.

27  
United Parcel Service  
U.S.

28  
BMW  
Germany

29  
American Express  
U.S.

30  
Hewlett-Packard  
U.S.

31  
Cisco Systems  
U.S.

32  
Honda Motor  
Japan

33  
Singapore Airlines  
Singapore

34  
Starbucks  
U.S.

35  
Caterpillar  
U.S.

36  
Intel  
U.S.

37  
Marriott International  
U.S.

38  
Nestle  
Switzerland

39  
Sony  
Japan

40  
Boeing  
U.S.

41  
Deere  
U.S.

42  
Nokia  
Finland

43  
North-western Mutual  
U.S.

44  
Best Buy  
U.S.

45  
General Mills  
U.S.

46  
Toyota Industries  
Japan

47  
Lowe's  
U.S.

48  
AT&T  
U.S.

49  
Accenture  
Bermuda

50  
Samsung Electronics  
South Korea

\* THE LIST OF 50 ALL-STARS IS VOTED ON BY ALL RESPONDENTS TAKING THE MOST ADMIRABLE SURVEY. TO SEE HOW INDUSTRIAL PEERS VOTED, SEE "THE LIST OF INDUSTRY STARS."

NOTES: See also related article on page 90 of same issue.

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**LOAD-DATE:** March 3, 2009

# **EXHIBIT U**



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Fortune

March 22, 2010 Monday

**SECTION:** FORTUNE: THE WORLD'S MOST ADMIRER COMPANIES; Pg. 121 Vol. 161 No. 4 ISSN: 0015-8259

**LENGTH:** 142 words

**HEADLINE:** The World's Most Admired Companies

**HIGHLIGHT:**

Building a sterling reputation in good times is hard enough. Staying revered during tough times is nearly impossible. Here's how Apple, Berkshire Hathaway, BMW-and yes, even Goldman Sachs-do it.

**BODY:**

THE 50 ALL-STARS

THE VERDICT IS IN: ASKED WHICH COMPANIES THEY MOST ADMIRE ACROSS ALL INDUSTRIES, MORE THAN 4,100 EXECUTIVES, DIRECTORS, AND ANALYSTS CHOSE THESE.

1. APPLE
2. GOOGLE
3. BERKSHIRE HATHAWAY
4. JOHNSON & JOHNSON
5. AMAZON.COM
6. PROCTER & GAMBLE
7. TOYOTA MOTOR
8. GOLDMAN SACHS GROUP
9. WAL-MART STORES
10. COCA-COLA
11. MICROSOFT
12. SOUTHWEST AIRLINES
13. FEDEX
14. MCDONALD'S
15. IBM
16. GENERAL ELECTRIC
17. 3M

18. J.P. MORGAN CHASE
19. WALT DISNEY
20. CISCO SYSTEMS
21. COSTCO WHOLESALE
22. BMW
22. TARGET
24. NIKE
25. PEPSICO
26. STARBUCKS
27. SINGAPORE AIRLINES
28. EXXON MOBIL
29. AMERICAN EXPRESS
30. NORDSTROM
31. INTEL
32. HEWLETT-PACKARD
33. UPS
34. NESTLÉ
35. CATERPILLAR
36. HONDA MOTOR
37. BEST BUY
38. SONY
39. WELLS FARGO
40. EBAY
41. NOKIA
42. SAMSUNG ELECTRONICS
43. DEERE
44. L'ORÉAL
45. AT&T
46. LOWE'S
47. GENERAL MILLS
48. MARRIOTT INTERNATIONAL
49. DUPONT
50. VOLKSWAGEN

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