

Press Release

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UK Shareholders Association
BM UKSA
London
WC1N 3XX

Phone: 0870-70-60-600
Email: uksa@uksa.org.uk
Web: www.uksa.org.uk

UKSA Launches a Campaign Against Share Buy-Backs

The UK Shareholders' Association (UKSA) believes that market share buy-backs are often contrary to the interests of shareholders, and particularly to the interests of private shareholders who are our members. The increasing popularity of market share purchases by companies is resulting in cases where such buy-backs are taking place when it is not prudent, or where it is diverting cash that could and should be paid out in dividends to shareholders.

A good example of this is the software company Surfcontrol. This company has had substantial cash in the bank for several years. For example at the last year end they had cash on the balance sheet of \$58 million (£33 million). In addition they have been generating substantial cash from operations - \$23 million in the last financial year – and have no significant debts. But Surfcontrol has never paid a dividend during its 8 years as a public company.

What has the company been doing with the surplus cash that it has been generating? Investing in acquisitions or new business ventures? Not to any significant extent – in fact much of it has been used to buy back shares in the open market.

The United Kingdom Shareholders Association believes that companies that can do so should pay dividends, and we do not consider there should be any exceptions for technology businesses (after all even Microsoft is now paying a dividend). We are not opposed to open market share buy backs in all circumstances, but one without the other makes no sense to us. Our full arguments on this issue are the subject of a recent 6 page report by UKSA which has been sent with this press release as a separate document (or call 020-8467-2686 for a copy).

We have already sent a letter to all shareholders in Surfcontrol on this matter and have brought it to the attention of the directors. Further representations will be made if the policy does not change. Other companies that we are considering as examples of unreasonable buy-backs are Compass Group and Rank. But there are many others where we would urge shareholders to vote against resolutions authorising share buy-backs unless much better justification is given. The fact that a company has potentially surplus cash on its balance sheet, and wishes to return some to shareholders, should not automatically prompt an open market share buy-back programme.

About The UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is solely owned by and primarily financially supported by its individual members.

For further information, please contact:

Roger Lawson, Communications Director
Telephone: 020-8467-2686
Email: roger.lawson@btclick.com
or;

David Blundell, Chairman
Telephone: 01937-572327
Email: dwwb@btinternet.com

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