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## New RedChip Owners Post Research But What Are Interlocking, Overlapping Relationships And Compensations?

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(Distributed for Investrend Communications, Inc. via M2 Communications Ltd ([www.m2.com](http://www.m2.com)) December 19, 2005 (FinancialWire) **RedChip** Analytics, for over a decade one of the most respected subscription-based providers of research on smaller public companies that had little or no coverage, has undergone a change of ownership, change of location, slight change of name to **RedChip** Independent and a change of policies and standards that has raised some questions and concerns in the analytics community. The brand briefly vanished from public view for much of 2005, but is now back, with coverages for such companies as I/O Magic (OTCBB: IOMG), LKG Corp. (NASDAQ: LKQX), Coffee Holding Co. (AMEX: JVA) and Greenfield Online (NASDAQ: SRVY), but usually with an asterisk and a question mark.

If the disclosure is at the new firm's website at all it is difficult to find; prospective subscribers will not easily nor quickly learn that what is called **RedChip** Independent research, published by Red Chip Companies, Inc., may not be so independent at all. The brand was apparently purchased this year by Dave Gentry, who is also listed as

president of Aurelius Consulting Group, a consortium of investor relations consultants, and proprietor of the stock promotion site,

RunOnIdeas.com. While the **RedChip**.com website soliciting subscribers may not be so

transparent, the reports themselves do disclose that **RedChip** is now an affiliate of the Aurelius Consulting Group, and that some companies covered, such as I/O Magic, are clients of Aurelius.

Research providers owned by, commonly owned by or affiliated with investor relations firms are perceived in the industry as conflictual,

and such cross-ownership is banned by the Standards For Independent Research Providers at <http://www.firstresearchconsortium.com>, and also run afoul of the Issuer/Analyst Guidelines jointly promulgated last

year by the CFA Institute and the National Investor Relations Institute. Most investor relations firms also own or are provided stock in many of the companies they represent, and that is also prohibited for

independent research providers by the industry's Standards, which describes the practice as inherently conflictual. The company's RunOnIdeas.com website discloses it holds stock in many of its client companies, but specifics are difficult if not impossible to come by. The reports state that the analysts contributing to the coverages do

not hold any shares, but that specificity raises questions about whether **RedChip** principals or affiliates benefiting from the reports may own shares. Another eyebrow-raiser is the Preliminary Notes issued expressing favorable opinions, for example, about I/O Magic on December 15, prior

to the issuance of an Initiation Report soon. The Standards, which **RedChip** has not adopted due to its ineligibility as an affiliate of

an investor relations and promotional firm, state that opinions may not be issued in the absence of a full report. But these are not the most troublesome concerns. Despite these overlapping and **interlocking** relationships, the reports issued by

**RedChip** state that companies such as I/O Magic, despite being a client of the Aurelius Consulting Group did not commission this research report; nor did they compensate **RedChip** or Aurelius for this report, and that providing independent research for I/O Magic, Inc.

is not required in the Contractual Agreement between Aurelius Consulting Group, Inc. and I/O Magic, Inc. Regardless of how the research is packaged, there remains a question about the disclosures since U.S. Securities and Exchange Commission Regulation 17(b) is not specific to compensation for research but

compensation associated with the public dissemination of any communication. The reports state that Aurelius was paid, but not how much, despite what some see as a dubious disclaimer that funds paid to entity A do not benefit the owners of entity B even if they are the same owners; regardless, amounts paid are not disclosed. And the fact

the reports are published at an expense to someone or some entity does not seem to be contested. The U.S. Securities and Exchange Commission Regulation 17(b) states: It shall be unlawful for any person, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, to publish, give publicity to, or circulate any notice, circular, advertisement, newspaper, article, letter, investment service, or communication which, though not purporting to offer a security for sale, describes such security for a consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amount thereof. More than 300 FinancialWire articles have appeared since June, 2003, regarding transparency deficiencies or non-existent or questionable SEC Regulation 17(b) disclosures in communications regarding more than 500 public companies. In an email to FinancialWire), John J. Nester, a spokesperson for the U.S. Securities and Exchange Commission, confirmed that regulators interpret 17(b) to mean that specific compensation information must be contained in press releases, and that a link to a disclosure somewhere

else, for example, is a violation of the regulation. He further stated that the compensation disclosure required by the SEC includes amounts

and sources in any press release mentioning the company under research coverage . The SEC had previously told FinancialWire) that it intends to enforce its provisions so that investors may have a fully transparent understanding of any potential agenda or lack thereof. Earlier this year, the SEC fined Dutton & Associates for failing to disclose amounts paid associated with reports the provider published about EasyLink (NASDAQ: EASYE). Other companies featured on the company's various websites include Axial Vector (OTCBB: AXVC), Azco Mining (OTC: AZMN), Edgewater Foods (OTCBB: EDWT), Farmstead Telephone Group (AMEX: FTG), General Environmental (OTCBB: GEVM), Implant Sciences (AMEX: IMX), M-Wave (NASDAQ: MWAV), Newtek Business Services (NASDAQ: NKBS), Perfisan Holdings (OTCBB: PFNH), Pervasive Software (NASDAQ: PVSU), Satcon Tech (NASDAQ: SATC), Securecare Technologies (NASDAQ: SATC), Wits Basin (OTCBB: WITM), and X-Change Corp. (OTCBB: XCHC). Investrend Research or its affiliates have provided analytics coverage to several of Aurelius apparent current clients, including I/O Magic, Perfisan Holdings and Wits Basin, but Aurelius was not involved in any of those coverages, all posted at <http://www.investrendresearch.com> with full disclosures and disclaimers. In late 2004 and early 2005, Investrend Communications, Inc., the parent to Investrend Research, as well as to Investrend Information, publishers of FinancialWire, was in negotiations with the previous owners of **RedChip** about acquiring the brand, primarily to integrate its research into Investrend Research and to bolster its Investrend Forums (<http://www.investrendforums.com>) with **RedChip**'s then growing conference division; but Investrend withdrew from those negotiations

after two or three months. The details regarding those negotiations are subject to nondisclosure agreements. Neither Gentry nor Aurelius

nor RunOnIdeas are believed to have entered negotiations until after that period. However, Investrend Research did agree to limited rights to post and distribute the then-existing research portfolio of the old **RedChip** Analytics. These coverages, also posted at Investrend Research (<http://www.investrendresearch.com>), include AXM Pharmaceutical (AMEX: AXJ), Caneum, Inc. (OTCBB: CANM), also a direct Investrend Research enrollee, Imcor Pharmaceuticals (OTC: ICRP), Magnetek (NYSE: MAG), Minerva Andes (TSX Venture: MAI; OTCBB: MNEAF), Northern Orion (TSX: NNO; AMEX: NTO), Spartan Motors (NASDAQ: SPAR) and Utek Corp. (AMEX: UTK). These coverages are not associated in any way with the new **RedChip** Independent group.

The CFA Institute and National Investor Relations Institute Analyst / Issuer Guidelines requires that analysts:

Accept only cash for their work and to decline any compensation that is contingent on the content or conclusions of the research or the

resulting impact on share price ; Disclose the nature and extent of their compensation, along with any relationship they may have with the issuer or an affiliate, their credentials and professional background, and any matters that might reasonably be expected to impair their objectivity; and Certify that analysts and recommendations contained in the report represent their true opinion. The NIRI-CFAI joint panel now requires public company issuers to insure that reports issued about it for a fee contains the appropriate fee disclosures, as well as require that analysts have proper, disclosed credentials. The following Standards for Independent Research Providers, initially promulgated three years ago were updated May 9, 2005, and are posted at <http://www.firstresearchconsortium.com>. They include the CFAI-NIRI and other ethics programs by reference: The FIRST Research Consortium, founded in May, 2003 as an Association of Standards-Based Research Providers, recognizing that surveys

indicate that three out of every four investors are most influenced by an analyst report, that nearly nine out of ten investors believe legitimate fee-based research is objective and useful, and that Enrollment in standards-based research is an important measure of a company s commitment to transparency and Good Governance, has promulgated these Standards for Independent Research Providers, to

serve as an ethical bond between enrolled companies and their shareholders. 1. Ethical precepts are an essential element of professional independent research, establishing the credibility necessary to understanding and accepting the research provider s analytical

output. Thus:

a. These Standards incorporate by inference the analyst Standards and Ethics of the CFA Institute, the Issuer / Analyst Guidelines jointly

adopted by the CFA Institute and National Investor Relations Institute, and the appropriate language in NASD Rule 2711, Regulation AC, as well as other recognized industry guides; and b. Once a company has enrolled for coverage, the responsibility of the fee-based independent research provider and its assigned analyst(s) is to the public and to a company s shareholders and investors, and not to any company or to management. 2. Qualified analysts are fundamental to the production of valid analytics. Thus: a. Only analysts credentialed by professional peer-reviewed organizations, or otherwise qualified by several years of supervised or supervisory research reporting for recognized financial institutions, and only adherents to the Standards and Ethics of the CFA Institute should be allowed to produce research published by fee-based independent research providers; b. The names and credentials of analysts producing the research should be included in reports published by independent research providers, along with an attestation thereto that the analyst s work product is purely his or her own without influence or interference; and c. Only

qualified analysts should determine what to publish and when to publish. Independent research providers are obligated to distribute the qualified analyst's report upon publication. 3. Transparency is vital to the publication and dissemination of investment data and fundamental analysis, and is an ethical responsibility of the fee-based independent research provider. Thus: a. Fee-based independent research providers should disclose all amounts of compensation received or to be received for the preparation, publication and dissemination of research, research summaries or other announcements not only in the reports but also in whatever form such material is disseminated; b. All such communications should include the names and identities of the payers, and if a third-party or third-parties, their names and identities, as well as their relationship(s) to the issuer; c. All such communications should also meet both the letter and the spirit of U.S. Securities and Exchange Commission Regulation 17(b); d. If communications come from the issuer, it is the responsibility of the provider to advise the issuer that its reports or summaries may not be issued without the inclusion of these full disclosures, and if the provider is ignored, it is the responsibility of the provider to so inform the public; and further, e. Ratings and targets should not be issued as recommendations or stock price predictors, and should not be issued or published in the absence of a full, publicly-accessible report. Where a report has been issued previous to a public announcement, the research provider has a responsibility to notice the investing public as to the date the report was previously issued, as well as who received the report. 4. Conflicts are inimical to credible professional research. Shareholders and investors need to feel comfortable that research is produced and published in an environment that is as free of analyst

influences as possible. Thus:

a. Analysts should not own a stake in their ratings. Neither they nor

principals of independent research providers should own or trade any form of equities of companies under coverage; b. Analysts should be paid for their initial reports in advance, or if salaried, the analysts' incomes should not be dependent on the outcome of their reports; and c. Independent research should not be under the control of an investment banking department, investor relations or promotional firm or department or executive, and should not be produced or published under the auspices of an investment bank, investor relations or promotional firm or brokerage. 5. The Mission of the Standards-based independent research provider is to provide the investing public with an ethical, qualified, transparent and conflict-lessened fundamental analysis of public companies and

their equities. Thus:

a. Adopters of these Standards for Independent Research Providers

agree to review by the FIRST Research Consortium Independent Research Standards Task Force, and agree that the Consortium may, at its sole determination, suspend, terminate or expel a Provider found to be in violation of these Standards. For up-to-the-minute news, features and links click on <http://www.financialwire.net>. FinancialWire is an independent, proprietary news service of Investrend Information, a division of Investrend Communications, Inc. It is not a press release service and receives no compensation for its news or opinions. Other divisions of Investrend, however, provide shareholder empowerment platforms such as forums, independent research and webcasting. For more information or to receive the FirstAlert daily summary of news, commentary, research reports, webcasts, events and conference calls, click on <http://www.investrend.com/contact.asp>. The FinancialWire NewsFeed is now available in multiple formats to your site or desktop, free. Click on: <http://www.investrend.com/XmlFeeds?level=268>

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