

EthicScan Canada

Partnership Screening Research Report

Prepared Exclusively for the Use of <IDENTITY CONCEALED>

Company Name: Xentel DM Inc
 EthicScan DataBase Number: Not in DataBase
 Contract Number: 04-113 (AI)

FINAL

Screen Topic	Concern		
	Major	Minor	None Apparent
Ethical Management	X		
Employment Equity		X	
Environmental Responsibility		X	
Progressive Management	X		
Governance		X	
Community Responsibilities		X	
Public Health		X	
Human Rights		X	
Ethical Sourcing and Trading			X

Background: Calgary-based Xentel DM Inc is in the business services market. It uses a proprietary database to raise money for public service associations like local law enforcement, firefighters, and other cause-related service groups (like Shrine Circus, Missing Children, Big Brothers, and Crime Stoppers) largely through telemarketing solicitation and the production and marketing of entertainment event tickets. Xentel describes itself as a leader in profile enhancement for community-based organizations, through the use of relationship-based integrated databases and direct marketing services. The company, which operates in Canada and the United States, has an estimated 350-450 clients, and works out of 30 offices, changed from 35 offices in 2003 and 22 offices in 2002. It was founded in 1979 as Great West Entertainment by Geoff Pickering. Major acquisitions include The Gehl Corporation (in 1999) and American Trade Publications Group (in 2003). The company is publicly traded on the TSX venture exchange (CDNX) —ticker symbol XDM. Revenues in 2003 were \$102 million—a year when it had a net loss of \$2.9 million.

Ethical Management: This is a Major Concern area as Xentel has no written corporate code of ethics, has elicited a number of marketplace complaints in many jurisdictions, uses a business model that is highly self-centred, and has settled a number of government-initiated consumer rights complaints.

Xentel has a one page plaque, called the PRIDE statement, which addresses the company's good name and consumer interests, but makes no explicit mention of integrity. For at least ten years Xentel has been a member of the Canadian Marketing Association which has a voluntary business practices and privacy code. It has been a member of the Direct Marketing Association in the U.S. for at least six years. Termination of a prospective buyout of Xentel in 2004 by Schroder Ventures resulted in a \$50 million lawsuit by Xentel against SV and a \$3 million countersuit that is still before the courts, as mediation thusfar has failed.

In none of its Annual Reports goes the company disclose several government suits, actions and consumer penalties. Often these involve cases where the company retains 75-95% of all monies it raises through telemarketing. For example, in 2004, the state of Iowa initiated a suit against the American Deputy Sheriffs Association which used Xentel to raise funds, including the promise of a decal which could be seen to influence issuing of speeding or parking tickets. In that campaign, 88% of funds raised went to Xentel, Inc. In 2003, the state of Iowa launched a lawsuit in which the company allegedly used misleading telemarketing pitches— it kept \$448,000 of \$590,000 raised. Ron Brammer of the Iowa AG's office reports on November 17th that the "matter remains pending." The corporate spokesperson said that a "consent decree was signed on or around November 21st". In 2003, Xentel was penalized \$75,000 under a consent order by the Attorney General of Missouri in a case where the company made calls to people who specifically had asked not to be called. In 1997, the Gehl Group (Xentel acquired it in 1999; and Mr Gehl is a former president of Xentel) was served with an injunction for consumer fraud.

Overall, the corporate spokesperson, Co-CEO Rick Platz, says there are at least 4-5 more of these cases, typically involving firefighters, security forces, or public service unions. He describes them as "a licence to do business" and "the cost of doing business." In his words, U.S. regulators accuse the company of many things, and then sign a narrow consent decree, typically with a financial penalty, the company denying wrongdoing for all or part of the original allegations, and the government issuing its press release version of the settlement. Mr Platz is proud of his Canadian-based company that has entered a difficult U.S. market that is heavily regulated, and has successfully competed there. He notes that the firm has never been prosecuted for any criminal offence, but has voluntarily resolved or settled a range of nuisance, misleading representation, wrongful dismissal, or other suits or actions

Employment Equity: None of Xentel's current seven directors are female. Likewise all seven executive officers are male. Prior to 2004, Ms Cori Simms had been a Board director for five years. Women comprise about 75% and 40% of administrative staff, in Canada and the U.S. respectively. Visible minorities comprise about 50% and 75% of sales staff, in Canada and the U.S., respectively. The company does not offer daycare or daycare referral for the children of staff. When asked if Xentel has an employment equity policy, the spokesperson responded that it is an equal opportunity employer in the U.S. and that a similar policy is in development in Canada.

Environmental Responsibilities: The company operates thirty call centres in North America, according to its 2003 Annual Information Form (AIF), including a business to business call centre in Fort Lauderdale. No mention is made of office recycling, subsidized transit passes for employees, or specific support to environmental causes. The company's annual report isn't printed on recycled, post-consumer stock. When asked if there is a full time environment, health and safety officer at each larger office or call centre, the spokesperson responded "no". At larger offices with more than 50 seats, however, a person does look after health, cafeteria, recycling and other responsibilities.

Progressive Management: This is a Major Concern area as the company resists collective bargaining, offers limited training for staff, and has telemarketing campaign recipients who complain about pressure tactics and misrepresentation.

Xentel is not unionized. There have been some attempts to unionize staff at U.S. operations (such as St Louis and Milwaukee) and in Canada (both eastern and western Canada). Mr Platz says that the unionization effort at Milwaukee is in the doldrums, at present.

The spokesperson reports that there are 1,500 full time equivalent (FTE) staff and 250-300 administrative staff. The number of full and part-time employees has dropped from 3,000 in 2003 (2003 Annual Report) to 1,800 FTE today, which suggests consolidation and layoffs at U.S. acquisitions which were "overstaffed". In total, some 85-90% of Xentel's workforce are in sales (telemarketing). Call centre personnel salaries represent 50% of total expenses. No mention is made of employee counselling, flex time, or work-home balance initiatives. Normally less than two days of training are offered to new telemarketing staff, most of whom work under 30 hours per week. Call centres typically operate from 8:30 AM to 9:00 PM. A lawsuit against the company initiated in March 2003 by a former employee was settled in June 2003— the case involved claims of improper dismissal, sexual harassment and fiscal irresponsibility.

Telemarketing jobs are traditionally seen as low status, high stress, part-time, seasonal, and high turnover. A Rip Off Reports website reports two personal postings or testimonies from persons alleging to be Xentel employees. One, from Jerome based in Regina, alleges smoking in the lunchroom, threats to staff who didn't reach fundraising quotas, complaints that only two of five training days were delivered, and concern with telemarketer statements that the monies solicited were to be used locally when this was neither true nor verifiable. The other, from New Stanton, Pennsylvania, alleges difficult working conditions and false representation by fellow call centre telemarketing colleagues. There is no independent verification of either posting.

Governance: The company, which does not separate the position of chair and CEO, has two co-CEOs. Each owns 21% of the company's shares. Directors and officers control 50.2% of all shares. No mention is made of a nomination or compensation committee of the Board, let alone one populated wholly by independent directors.

Today, four of Xentel's seven directors are unrelated and independent. Of the six directors reported in the 2003 AIF, four were executives or related, and information wasn't detailed enough to determine if the other two were wholly unrelated. One of them, a lawyer whom the company had done business with a former firm, has now grown into an insider relationship. In the 2003 Annual Report, three of five directors where data is available appear to be related, rather than independent.

Stock option plans exist for employees, officers and directors. The company has dual share structure-- both voting and non-voting shares-- which is frowned upon by good governance advocates. Mr Platz says that non-voting shares have never been issued. The company used businesses owned by non-arms-length related parties to procure certain real estate rental premises (354401 Alberta), voice mail (Medianet), and production (Allwest Productions) services which are recorded in its financial statements. Mr Platz describes these related party relationships as "limited" or "insignificant".

Community Responsibilities: Corporate charitable cash donations in 2003 were an estimated \$20,000-25,000 in Canada and \$15,000-20,000 in the United States. A key part of such support were cash donations of monies that otherwise would have been used for Christmas cards. In addition to cash, there was an estimated \$3,000-5,000 and \$500 in in-kind donations, Canada and the U.S. respectively, primarily of tickets to entertainment events and silent auctions, mostly to civil society organizations who are clients. Xentel is not pledged to the Imagine Campaign, signifying donations of at least 1% of pre-tax earnings over a three year average. Xentel's donations are less than one quarter of one per cent, albeit in a non profitable year of operations.

Xentel develops family entertainment programs and sells excess venue capacity tickets to community-based events like circuses, old-timer hockey challenges, and celebrity basketball games. For example, Xentel buys surplus tickets to a university or college sports game, makes a donation to the institution's athletic program, and markets the event to the public as a Shrine Bowl. In 2002, such activity at nine hundred public benefit events accounted for 60% of Xentel's total revenues. ." In 2003, an investigation by a reporter for the *Philadelphia Inquirer* resulted in a story that Xentel, Inc raised \$US 475,000 for the Pennsylvania Narcotics Officers Association, but kept 88% of all telemarketing campaign pledges and donations raised.

In 2004, the state of Iowa initiated a lawsuit against the American Deputy Sheriffs Association, which used Xentel as its telemarketing fundraising, including affidavits that the telemarketers promised contributors a decal which could be seen by some to influence an officer's issuing of traffic tickets. Mr Platz comments that police officers would do no such thing (that is, not write a ticket to the driver of a decal vehicle) and that the U.S. "is an over-decaled bumper sticker society

Public Health, Safety and Reputation: Legislation dealing with commercial telemarketing is nuisance-based in the United States and privacy-based in Canada. The company is exempt from Do Not Call legislation enacted in 2003 in the U.S. because it acts on behalf of not-for-profit organizations. The CRTC in Ottawa said that there were no public complaints raised, or collected, about Xentel or other companies in its sector in Canada. Proposed CRTC rules expected to have been tabled in 2004 have been stalled by criticisms that they are unworkable or questionable. In 2003, the Toronto police officers union received adverse media coverage in Toronto for a True Blue campaign, conducted on its behalf by Xentel, as an American style, high pressure campaign to extort money from individual citizens. In 2004, the company was successful in its lawsuit against the City of Windsor, Ontario which had enacted an anti-live animal (anti performing circus) by-law.

Human Rights: The company's Annual Report makes no mention of anti-discrimination or harassment complaints or investigations. When asked about any such cases, Mr Platz

responded that the company has none in Canada but has inherited a couple of discrimination or harassment cases in the U.S. from its Gehl Group acquisition. When the company acquired the Gehl Group, there was an EEOC claim by a black female ex-employee. This \$36 million claim was settled by Xentel for \$60,000-70,000 dollars, which Mr Platz comments is less than the company's prospective legal costs, had it not settled.

Xentel has no written ethical procurement strategy nor a formal policy that restricts B2B clients who are involved in making or selling alcohol, tobacco, or gaming products. The company's entertainment program books contain a "minimal" level of alcohol and tobacco company ads largely because these business sectors are regulated in terms of promotion in Canada. Mr Platz says that the only advertising restrictions Xentel applies would be for strip bars, escort services, and other commercial sex activities inconsistent with marketing family entertainment events.

Ethical Sourcing and Trading: The company operates as Xentel DM in Canada and Xentel, Inc in the United States. Fifty-six per cent of total revenues come from U.S. operations (2003 AIF). When asked whether there had been outsourcing of call centres to countries outside North America, the spokesperson responded that this had been researched but rejected.

Reference Details

PSR Report Commissioned By: <name withheld>

Date Prepared: November 2004

Corporate Spokesperson: Rick Platz, Co-CEO

Company President: Geoff Pickering, Chair and Co-CEO

EthicScan Researcher: Bart Astor, David Nitkin

Companion Document Sent: Profile Fact Sheet

Company Contacted Prior to Sending: Yes No

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Caution

The research contained above is correct to the best of EthicScan Canada's knowledge. It typically includes interviews with corporate executives, labour officials, and a thorough review of our DataBase. Where there is sufficient time allotted by the client to contact the company to verify the data, the preferred methodology, this information is noted above.