ARTICLE REPRINT

Conneting the Dots

by Hank Boerner

March 2006

INVESTOR RELATIONS
update

PUBLISHER
Louis M. Thompson, Jr.

EDITOR
Laura Bernstein

PRODUCTION MANAGER
Melissa Jones

CONTRIBUTING EDITOR
Carol Metzker

IR Update is published monthly by the National Investor Relations Institute as a service to its members. Annual subscriptions are available to nonmembers: $175. ISSN 1098-5220

FOR SUBSCRIPTIONS OR CHANGE OF ADDRESS, CONTACT: NIRI–*IR Update*, 8020 Towers Crescent Drive, Suite 250, Vienna, VA 22182, Phone: (703) 506-3570, FAX: (703) 506-3571, e-mail: amumeka@niri.org

IR UPDATE E-SUBCRIPTIONS FOR NONMEMBERS: Annual subscription: $75.

PLEASE SEND QUERIES OR SUBMISSIONS TO: Laura Bernstein, Editor, Phone: (540) 955-3696, e-mail: irupdate@niri.org

ADVERTISING AND REPRINTS: Melissa S. Jones, Production Manager, Phone: (703) 462-2207 e-mail: mjones@niri.org

REPRINT FEES PER ARTICLE:
Electronic copy — Adobe Acrobat PDF file
Authors only: $75, Members: $200, Nonmembers: $300
Web posting or e-mail distribution: $500

Hard copies: Quantity under 10: $10/copy
Quantities 10-100: $5/copy
An estimate will be provided for quantities over 100.
All prices are subject to a signed agreement.

NIRI WEB SITE: www.niri.org

Connecting the Dots

By Hank Boerner

Remember that wonderful game we played as children called "Connecting the Dots"? Holding a shaky pencil, we went from dot to dot, and suddenly there was the horse or cat or house. Next we colored the picture inside the dots and proudly showed Mom: "Look, a real picture!" And so we learned three of life's great lessons: (1) What we think we see is not always what is on the page (until we connect the dots); (2) The total picture is not clear until half or more of the dots are connected; and (3) Putting color to the picture makes it come alive.

So what's the point of this for the IRO? One of the constant phrases we hear in offices we visit is: *"You gotta connect the dots!"* For the benefit of IROs, consultants and financial managers reading this column, we will attempt to connect some important dots — recent developments, trends, trajectories of issues — that, when lines are completed, will present a picture to help guide you through some potentially tough issues in 2006 and beyond. We hope the pictures on the page are clear — and you may find some colorful, as well.

Stay Tuned . . . to compensation at the top. CEO pay is clearly the lightning rod for shareholders during the 2006 (and likely 2007) proxy season because of the SEC's proposed corporate disclosure rules. If these rules are adopted, IROs will be busy inside their companies, working to:

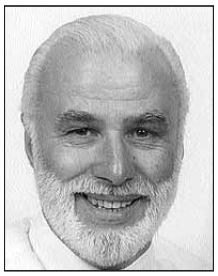
- Amend present disclosure practices and devise new narratives and presentations for such items as executive and director compensation and related party transactions; director independence issues and some aspects of corporate governance; and security ownership by officers and directors in all forms, past/present/future (promised or to be earned).
- Change the content, language and presentation (format) of a number of key items for disclosure in proxy statements, annual reports and registration statements, starting with 2007 filings.
- Change the current tabular disclosure on compensation to add abundant narrative for more complete (and understandable) disclosure of total comp for the CEO and CFO, the next three C-suite officers and all members of the board of directors.
- Explain exec comp in greater detail in three broad categories: (1) total compensation for the most recent three years; (2) holdings of equity-related interests received as compensation that represent future gains; and (3) retirement plans and all other post-employment payments and benefits granted/in place.

There are numerous other changes and adjustments to corporate disclosure proposed in the draft rule, and it is suggested reading for the IRO — many dots awaiting connection in SEC announcement 2006-10 (available in full at www.sec.gov/news/press/2006-10.htm).

Stay Tuned . . . to reform-minded SEC rule making under Chairman Christopher Cox. CEO pay is a popular issue with institutional and individual investors, and the SEC has responded to institutional demands for reform.

In announcing the proposed disclosure rules, the chairman said the updates to existing rules are intended *"to help investors keep an eye on how much of their money is being paid to the top executives who work for them."* The SEC proxy disclosure rules on executive compensation, he noted, have not been updated in 14 years.

Stay Tuned . . . to the language of SEC reform; words are chosen carefully and can signal important messages. Note the words chosen in January by the chairman in addressing the investors' need to know: *"In some cases [corporate] disclosure obfuscates rather than illuminates the true picture of compensation. … We want investors to have a one-number, single bottom-line figure for all compensation. … This is about wage clarity, not wage controls. … It is the shareholders' and boards' job to determine the appropriate levels of executive pay. … Our job is to ensure investors have all the compensation information they need, presented in a clear and understandable form they can use."*



Hank Boerner

Oh, and about your writing and editing skills: Besides completeness of explanation and clarity in presentation of the numbers, Chairman Cox indicated narrative and explanations are critical concerns to his agency: *"I know some of you will believe it when I see it — but these rules will permit the SEC to get very serious about plain English."* If adopted, the SEC's rules would be in effect for the 2007 proxy season.

Stay Tuned . . . to the 2006 proxy season for vote outcomes that will help you connect the dots for the 2007 season and beyond.

Following are five important elements to watch in the weeks ahead:

1. A significant number of issues proposed and/or voted on in past seasons will be back on the table for shareholder consideration, and CEO pay will be among the most contentious for investors of all types.

2. There will be some new issues on the table, either one-offs for a single company's issues (such as the vote at Time-Warner on directors aligned with investor Carl Icahn) or multiple-company, industry or sector issues, such as for resource-extractive companies.

3. New institutional players will become more involved in shareholder advocacy and proxy season activism, including mainstream mutual fund advisers.

4. New shareholder coalitions will exert more pressure on companies to move the needle on their issues.

5. Given the *sturm und drang* of current proxy seasons, issues will tend to become year-round, as constant reasons for dialogue between issuer and investor. Remember, your board is supposed to be developing effective communication with investors.

Stay Tuned . . . to rising social justice issues, as well as traditional corporate governance concerns being raised by a wider range of investors. One social issue this year echoes the anti-apartheid campaigns of the past: the effort among U.S. investors to end atrocities and terrorism in the Sudan state, and municipal public employee pension funds are now lining up on the issue.

In Illinois, a new law prevents the state treasurer from investing in any financial institution that is a "forbidden entity" — those doing various types of business in Sudan or owned by Sudanese interests. A number of other legislatures are considering similar legislation. (The draft bill can be viewed at www.ilga.gov/legislation/publicacts/fulltext.asp?Name=094-0079.)

And that's how some activist or social-minded — and even mainstream — shareholders may connect some of the more important dots regarding your enterprise! For IROs, your job will be to help connect the dots for your corporation under the new disclosure rules and to fill in the right colors for the investors who hold your shares! IRU

Hank Boerner is managing director-NY for Rowan & Blewitt, a management consultancy. The views presented here are his own. He can be reached at hank@hankboerner.com.