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Stay Tuned

By Hank Boerner

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STAY TUNED!

2008 — Will be a Year of Tremors and Quakes and Seismic Shifts for IR Professionals?

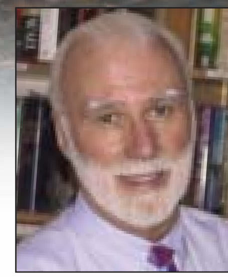
BY HANK BOERNER

Folks who live in California know all about earthquakes — the sudden shaking, rockin' and rollin', the frightening shifts of the earth's crust as tremendous pressure is released by the grinding of massive tectonic plates far beneath the surface of the ground. Unseen, all this can occur without warning; at other times, warning signs will be there … ignore them at your peril! Earthquakes can create wide swaths of damage on land; when they occur in the seabeds of the earth's oceans, deadly tsunamis strike distant shorelines. Some earthquake zones are highly visible — like the San Andreas fault line undulating for miles through the Golden State — and others are not.

Tiny Manhattan Island, for example, really does sit on a fault line deep beneath the bedrock; the fault line slices across the midtown skyscraper zone. No one worries about quakes because none of any magnitude has happened on Manhattan. But, New York City has seen its share of financial earthquakes, with devastating aftershocks rippling from the downtown epicenter out to distant capitals — such as in October 1929, October 1987 and during the tech stock meltdown in spring 2000.

Of course, we're talking about sudden capital markets shake ups, investment bubble bursts, stock market meltdowns, and the resulting shock waves that pound the financial system. The sub-prime mortgage bubble-bust is sure to roil the earth beneath Wall Street in 2008. as a million-plus mortgages re-set to higher rates early in the year. There are other issues that could send shock waves to public companies; every year-end we present our look at the coming year, and suggest what investor relations and financial professionals should *"stay tuned to."* Certainly 2008 has the potential to be a year filled with many metaphorical earth tremors and perhaps a few major earthquakes that will shake up Corporate America and Wall Street. Here are a few warning signs we're picking up on our editorial seismometer.

Stay Tuned to… the still-intensifying focus on CEO compensation on the part of institutional investors. And others — business journalists, members of congress, shareholder advocates and coalitions, social critics, academics, and corporate boards of directors for starters. The debate about "overpaying" for "underperformance" or "unresponsiveness" (company-shareholder) or the size of going-away packages for execs all create headlines and underscore the growing gap between CEO and bottom-pay workers. And these issues have the potential to deliver real shocks to the reputations (and share prices) of some public companies. The spring 2007 proxy season maneuvering was already underway when expanded disclosure rules for exec comp (the new "CD&A") became effective — too late for concerted action by shareholders. But like the warning tremors before the earthquake, much has been going all through 2007 as activist and mainstream investors prepare for the 2008 proxy contests — 2007 voting campaigns were just the warm up. The main events will be proxy seasons 2008, 2009 and beyond.



Hank Boerner

Keep in mind that it's more than just the cash. All elements of executive compensation packages are focal points of critics of

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escalating and "out of control" compensation. Here's an early warning: U.S. Senator Carl Levin (D-Michigan) put stock options on the agenda for change; he sees options accounting and the [negative] impact on the tax code as loopholes costing average taxpayers billions of dollars and fueling the growing pay gap between executives and average workers. His Permanent Subcommittee on Investigations held hearings in 2007 and found that nine companies claimed $1 billion in stock option tax deductions they were not entitled to. He also said that the IRS found (in 2004) that U.S. companies claimed a total of $43 billion more in stock option tax deductions than they showed as expenses, meaning they could avoid paying "billions of dollars in taxes on that year alone…"

Why is this a warning tremor to tune in to? Senator Levin has a bill in process: The "Ending Corporate Tax Favors for Stock Options Act" (S-2116) which could gain traction in 2008, especially if any of the presidential candidates latch on to the "wealth-gap" issue. If enacted the law would treat stock options as other forms of compensation and require that the corporate tax deduction match and not exceed the booked expense. As if options accounting is not complicated enough to have to explain to investors and analysts!

Stay Tuned to…the 2008 proxy season being the very public place where your shareholders make a lot of noise about what they don't like or what they want changed at your company. This could include your product marketing — think: poison (in/on toys, food and pet food); your human rights policies in distant lands; your supply chain vulnerabilities; the company's commitments and disclosure on climate change and global warming (we think this will be a huge issue for some companies); sales of military hardware to foreign countries; and for pharmaceutical companies, your pricing and distribution practices. "Say on Pay" will be an issue for many companies — was a big issue at Verizon and Citi this year. Investors are discussing with issuers the more than 100 shareholder resolutions that got a majority vote in 2007 — especially companies that didn't respond or deal with the issues, and whose execs and board will be will seeing the crowd with torches at the gates of the castle again.

Thanks to massive indexing, institutions can't walk away — they prefer to see the CEO and even board members walk the plank. One major investor and consumer irritant will occur in December on Manhattan Island, sending tremors across the capital markets: ***It's bonus time!*** Even though shareholders with portfolio positions in the financial industry may end 2007 on a dismaying and losing note, the people who work with OPM (Other People's Money) will receive an average of $200,000 per at the five biggest securities firms, said Bloomberg News. With $75 billion worth of equity "gone," by Thanksgiving, Wall Street's largest houses will be paying record level bonuses (about $38 billion) shortly after. And as Bloomberg's Christine Harper noted, the big houses lost 20 percent or more of market cap (except Goldman Sachs), but if they don't pay bonuses, "they're going to lose all their good people." And the impact on their good stockholders? That's a story for another day! And the journalists will be playing this up for months to come if the stock market tanks in 2008. The optics of this won't endear Wall Street or Corporate America to voters, consumers and investors.

Stay Tuned to…your shareholders speaking — loudly! No matter how the contentious and continuing debate on changing proxy access rules gets, the message should be clear to all boards, corporate executives and IROs: Your owners want to have effective discussion and communication with the enterprise. SEC received a record flow of public comments — well beyond 30,000 in 2007 — and most opposed the changes the Commission proposed for shareholder access to the proxy nominations process. No matter where the issue goes short-term, the important takeaway for IR professions is this: In 2008, your investors want dialogue, input, communication and improved relationships with the company! Opportunity: That dialogue could be centered in the IR office.

Stay Tuned to…important proxy season 2008 developments quietly occurring as 2007 ends. The tremors are becoming more pronounced. The shareholder coalitions have been very busy building momentum for the spring contests. Significant announcements will be coming in December and into 2008. A wide range of issues will be on the table, some tying CEO pay to improvement in corporate social responsibility, a continuing coming together of corporate governance and SRI investor interests to apply pressure to the issuer. We'll explore more of these in a future column as the proxy season gets underway.

There are more "earthquake moments" that could occur in 2008, but let's stop here and consider that the strengths of real earthquakes are categorized and rated on the Richter Scale. We can set out for you the tremors we now sense but we can't reliably rate the potential of damage to your company. What can ***you*** do? The key to surviving crisis events is usually advance preparation, arming yourself with knowledge and maintaining a cool head. Remember that most earthquake damage occurs ***after*** you feel the tremors. As IRO you can monitor and track the warning signs so that you are prepared to deal with tremors and aftershock and rolling waves of tectonic plate-crashing if the markets experience a major quake in 2008 and your company is affected. Or if your company is or continues to be a proxy season target. 2008 and 2009 could be quite interesting for the IR profession! IRU

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