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Editor's Notebook

By Hank Boerner

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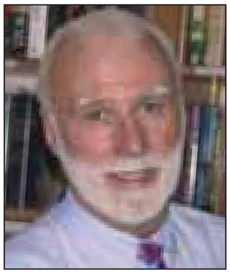
THE EDITOR'S NOTEBOOK

Timely highlights of news, commentary, research findings and other information for the IRO…



Hank Boerner

BY HANK BOERNER — EDITOR, NIRI PUBLICATIONS

The following are news items and background pieces that IROs and IR consultants can use as they look to the future — events of fall 2007 could have long-term effects on investor relations, financial reporting, accounting, securities regulation and corporate management decision-making. We welcome your contributions at: ***hboerner@niri.org.***

Interactive Data Filing – Not to Be Ignored Now

If you haven't yet dived into the interactive data filing process — still voluntary for issuers — note this: SEC Chairman Christopher Cox says the combined market cap of companies now submitting interactive reports (primarily XBRL) now tops $2 trillion. More than 55 companies are on board (seven joining over the summer, including Alcoa) with SEC's voluntary efforts. Note this as well: SEC has invested $55 million in the XBRL project and the initiative is a favorite of the SEC chair. XBRL is eXtensible Business Reporting Language with [recently-issued] well-defined "dictionaries" or "taxonomies" for various industries / sectors and financial reporting lines. Also gearing up: Edgar® Online (NASDAQ: EDGR), which says SEC filings for the latest earnings season have been processed. The company's database has 15,000 reports and 30 million data points. Records from the database can be made available to the public in as little as 15 minutes after companies release data to the SEC – and *all* companies' filing data can be delivered in six hours. Executives and boards may be underestimating the critical importance of the XBRL financial reporting revolution – much change is ahead. See the related article about the head of the SEC's Office of Interactive Disclosure, David Blaszkowsky, in this issue of *IR Update*, and expect much more reporting on XBRL adoption and developments in future issues.

SOX Spending — Mid-cap Compliance Lessons Worth Watching by Small-caps / Micro-caps

According to a recent report by Tom Johansmeyer, CEO of j-knowledge, it's been determined that aggregate spending on Sarbanes-Oxley compliance was almost $6 billion for U.S. issuers in 2005 (source: AMR Research). The cost of compliance is of course felt most by small-cap companies; their absolute costs may be lower but they are paying a disproportionately higher percentage of money to comply with SOX. At the other end of the market cap spectrum, the large-cap firms can well afford the compliance costs. Micro-caps have received a number of compliance deferments. And that takes us to the mid-caps — researchers say that smaller companies looking ahead to SOX compliance can learn from the mid-cap experience. On an absolute basis, at mid-cap companies the cost of compliance actually ***rises*** as total revenues ***decline***. Ninety-one mid-cap companies were studied and divided into various groups for analysis. SOX spending for each group increased as average total revenues declined — counterintuitive? The researchers say there are converging factors to consider (for both mid- and small-cap IROs and managers): these firms are smaller (than large-caps) and have less resources; they don't enjoy economies of scale; they may have immature operations (e.g., process, systems); SOX audits can be a problem (companies may need to adopt a more mature audit process for full compliance); and, smaller companies may have to not just comply with SOX but also refine operations at the same time ("compliance-plus"). Message to smaller-caps: Examine the in-betweeners, the current experiences of mid-cap firms with fewer resources than large-cap brethren, to assess what may be ahead for small-caps … and this may even apply to micro-caps. (Source: Revenue Recognition –information at: ***http://www.revenuerecognition.com/content/articles/9010.asp.***

Comments Closed — Watch for SEC Action

According to recent press coverage, Chairman Cox believes the SEC should go back to the drawing board on proxy access.Two competing proposals issued in the summer by the SEC for dealing with shareholder access to the corporate proxy process attracted 20,000+ responses from the public before comments closed on October 2nd. The activist shareholder community conducte an ambitious public relations campaign (the ICCR, Social Investment Forum, CERES coalitions) to generate public response to SEC commissioners. Taking the public pulse, the Opinion Research Corporation survey (in late-September) found that one-third or less of U.S. investors support any of the potential approaches outlined by SEC. (The survey was paid for by nine socially responsible investors and financial advisors.) Only one-in-ten American investors would back a "potential" SEC proposal to shift from traditional shareholder resolutions to electronic "chat rooms" as the primary means for investors to express their concerns [about companies].In comments to reporters after an SEC Historical Society program at the agency's headquarters, Cox indicated that he wasn't certain what the Commission will do with regard to a final rule in 2007. Senate Banking Committee Chairman Christopher Dodd (D-Conn.) and eight committee Democrats recently sent Cox a letter on the topic urging the SEC to reject the two competing rule proposals. Dodd's letter followed a similar letter from House Financial Services Chairman Barney Frank (D-Mass.) and 10 committee Democrats.The letter from Dodd and the eight Democratic committee members' letter is posted at ***http://banking.senate.gov/index.cfm?FuseAction=Press***.

Life After Analysts Stop Watching?

Three academics wanted to know what happens to companies after *all* analyst coverage stops — not an idle question these days as the sell side unloads staff analysts and dramatically trims covered companies rosters. It's estimated that more than half of issuers have no analyst coverage. The new study: *"Is There Life After Loss of Analyst Coverage?"* Answer: a limited "yes," but not a very pleasant "life" for many issuers. Small public companies come under severe pressure as they lose all sell-side coverage. They may have to de-list, be taken private, and end up with limited access to capital. Bankruptcy could be another unfortunate path taken. The academics say these "orphaned" issuers fare far worse than their still-covered peers. The motivations for dropping coverage are explained in the study, but the main reason is that investment banks and brokerages are not making enough money (trading income, investment banking services) from some companies and these are jettisoned. Authors Ajay Khorana of Georgia Institute of Technology; Simona Mola of Arizona State University; and P. Raghavendra Rau of Purdue University published their work after studying 2,753 firms (for 1983-2004 period) that lost all coverage. To get a copy of the study, e-mail: ***raghu@purdue.edu.***

And if You Value Stakeholders, Too…

Another trio of university academics looked at public companies in several countries that are "stakeholder-focused" (and not just focused on stockholders) to examine the advantages and disadvantages of companies operating in different cultures (U.S., U.K., Germany, Japan) — especially those firms with extra-ordinary focus on their employees and suppliers. This is a corporate governance research effort — but also an exploration of the cultural settings in which companies operate. As the "stakeholder-stockholder" debate heats up in the United States, expect this research effort to be oft quoted. In the U.S. and U.K. there's an assumption that shareholders "are owners looking for managers to give them their money back," say the authors. In Germany, the legal system is explicit that issuers *do not* have a sole duty to pursue the interests of shareholders — numerous stakeholders count, too. There are complex findings worth reading if you are interested in the effects of globalization on corporate behavior, corporate governance and especially investor behavior. The authors are Franklin Allen, University of Pennsylvania; Elena Carletti, Center for Financial Studies; and Robert Marquez, Arizona State University. The study is titled, *Stakeholder Capitalism, Corporate Governance and Firm Value.* Information is available at: ***allen@wharton.upenn.edu.***

Institutions: Divest Before We Bomb?

Interesting approach suggested in Jonathan Alter's "Before We Bomb Iran" column in the October 22, 2007 issue of *Newsweek*. Alter suggests that there is a better way to deal with the bombastic leader(s) of Iran than the U.S. or other nations rushing to military action. He suggests investors consider a divestiture campaign, similar to the long campaign focused on South Africa (the apartheid issue) and the current "Divest Sudan" efforts. Missouri State Treasurer (and institutional investor) Sarah Steelman (a Republican) was elected in 2004 and soon began to divest from the state's portfolio stocks of certain companies invested in North Korea, Syria and Sudan. A dozen other states followed with legislators introducing divestiture bills that passed or are pending, including California ($24 billion divested to date). Altman thinks that if the 400 Asian and European companies doing business with Iran are the targets of a divesture campaign by U.S. institutions, positive change may come about. Without military action. Worth watching: The states' divestiture movement, as U.S.-based companies are targeted (directly or indirectly) by state pension funds and their allies for ties to Iran and other rogue states.

And Divest Buffett Does

Famed investment guru Warren Buffett has been unloading shares in PetroChina — although these are not big positions for Berkshire Hathaway — as the United States, the United Nations and other powerful sovereign interests focused on the worsening situation in the Darfur region of Sudan. PetroChina has important interests in Sudan (buying large volumes of Sudan's oil resources) and activists are targeting the company (and its home nation, China) to put pressure on Sudan's rulers to stop the regional genocide. Shareholders actually brought the issue up at the annual love fest in Omaha thrown by Buffett (his annual meeting draws thousands). Now the "Save the Darfur Coalition" has new targets in view: Vanguard, American Funds (Capital Research), JP Morgan Chase and Franklin Resources — all have positions in PetroChina. As if IROs didn't have enough to deal with, growing grassroots advocates are growing more ambitious in their targeting of public companies in the U.S. as well.

2008 Proxy Issues Coming Into View

Speaking of targeting, the shareholder activist community is busily crafting 2008 proxy voting campaigns. Issues? We've learned of a few concerted efforts by institutional investors in recent days: there is growing support for the "Pay for Failure" campaign, designed to grab headlines at a number of underperforming companies with high-paid executives; watch out if your company is a target of SEC investigation; there's growing support among investors to address the issue of coal-burning by utilities; and there's the perennial "excessive CEO and top executive pay package" issues. And be prepared to deal with "sustainability" issues at your company. We'll look at the 2008 proxy season in the December *IR Update*. IRU