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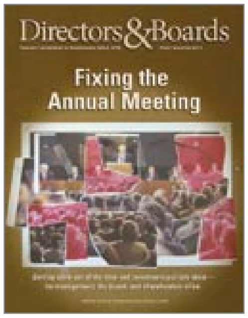

What to do about the annual meeting?

First, a few 'dirty little secrets' about these events, and then some fixes for getting more out of the time and investment put into them — for management, the board, and shareholders alike. **By Carl T. Hagberg**

Billions of dollars and countless hours of valuable senior management and director time are spent each year on annual shareholder meetings. Meanwhile, virtually no "professional investors" show up for these events, and fewer individual investors show up with every passing year. At many companies, the number of individual investors who take the time and trouble to vote their proxies is dropping perilously close to zero: This during a time when the need to have "good corporate governance" is getting more attention from activist investors, and from the press, than ever before.

Against this background, one might well opine that the traditional annual meeting model is badly broken … and maybe not worth fixing either.

Here are a few "dirty little secrets" about annual shareholder meetings and some thoughts from someone who has been attending, writing about and participating in annual meetings of companies large and small for over 40 years — and who does believe they are well worth the fixing. Also to follow are a few suggested "fixes."

What happens? Nothing

Annual shareholder meetings have been required events for publicly traded companies ever since there were publicly owned companies. Having an annual meeting of shareholders is enshrined in state law, in SEC and stock exchange rules and regs, and in the hearts and minds of securities lawyers, proxy solicitors, proxy tabulators, financial printers, mailing houses, hoteliers and various other service providers (including the author, as he feels obliged to confess up front).

Just shy of 14,000 shareholder meetings were held in 2010 by U.S. publicly traded companies, and roughly a *half-billion* sets of proxy materials — or notices that such materials are available — were sent off to shareholders last year, according to the latest statistics from Broadridge Financial Solutions Inc., which is involved to some degree or other in virtually every shareholder meeting that is held. That's a lot of meetings, and a lot of paper, and a lot of emailing, which is rapidly replacing paper mailings — which is good news for our overburdened landfills but bad news for printers, mailers, local postal workers and for most of us who are already severely overburdened with emails.

Aside from the billions of dollars in out-of-pocket expenditures public companies incurred to hold them, these 14,000 meetings consumed an awful lot of very valuable senior management time to prepare for them and to conduct them, which brings us to what we call the first dirty little secret of an-

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nual meetings: At the vast majority of them, nothing of significance ever happens.

Typically, the chairman of the meeting reads from a carefully prepared script, which is designed to conduct the "business of the meeting" as quickly as possible and which, most times, is simply to elect directors and ratify the appointment of the outside auditors. No discussion is needed and none occurs. Often there will be a few remarks on the past year's performance and maybe on the outlook for the coming year, and maybe a general Q&A period, but at 12,000 or more of these annual meetings, there will not be more than a handful of non-management stockholders in attendance (often none at all) and not a single question or comment. And, of course, essentially all the votes were cast and the meeting outcomes were decided days in advance. That is one heck of a lot of time and money for a literal non-event that's usually over in a half-hour, and often in a lot less time than that.

Well-run annual meetings present a truly unique opportunity to size up the entire leadership team and the real culture of the company.

Average investors don't care

The second dirty little secret about annual meetings is that not only are fewer and fewer shareholders showing up, more and more of them are failing to cast their votes by proxy. Back in the 1970s, when individual investors held roughly 80% of all U.S. listed stocks, they voted about 74% of time. Today, at many companies as few as 10% of the individual investors are casting their proxy votes in time for the meeting.

Attendees can be time and money wasters

Here's another dirty little secret about modern-day annual meetings that few people (and least of all our SEC meeting-overseers) seem to want to deal with: A large number of the people who *do* show up at them are, to put it kindly, out-and-out coo-coo birds.

Some have nothing better to do, and wander in for the free coffee and Danish. Others — the professional gadflies who, under current SEC rules are allowed to file the same tired old shareholder proposals year after year — end up wasting significant amounts of management time, shareholder money, and the valuable time of "regular shareholders" who may be there, as they hog the floor to "introduce" their proposals (which are already introduced in the printed matter, along with the company's official response, please note) and to ask a question or make their own personal comment on every other matter that may come up. Ouch!

Time to ditch the 'annual' aspect?

A few years ago, we floated the idea that maybe an annual meeting of shareholders is just plain dumb. After all, we elect the president of our country to serve a four-year term and our representatives and senators to serve two and six-year terms respectively. But after a lot of soul searching — and allowing as best we could for the fact they we have skin in the game and may be biased accordingly — we concluded that an annual meeting of shareholders *is* a good thing to require. Here's why.

Good reasons to stand front and center

First of all, the senior management team — and all the directors too — really should be required to stand up in front of the shareholder every year, give an accounting as to their stewardship, and answer reasonable, business-related questions from share owners. The deep thinking and heavy prepping that most officers and directors do to prepare for this event actually is one of the best "good governance assurers" one can think of. Thinking back to the days of those imperial CEOs, we could cite many an instance where basically bad governance became quite apparent to the audience, and to the press, and sometimes to startled directors too, during an otherwise routine annual meeting. Think, for example, of the Home Depot meeting a few years ago, where the CEO felt that no directors needed to attend, despite the horrific press coverage he'd earned during a reign that ended essentially on the spot; or the more recent rebellion against super-high executive pay and perks at Occidental Petroleum.

A needed safety valve

Second, and very much worth noting, shareholder meetings provide a wonderful and basically cost-effective "safety valve" for companies and investors alike — a lot like the pressure valves on a steam boiler or the old-time pressure cooker. Most of the time, both the valves, and the meeting attendees too, just sit there, doing nothing — which is actually a good thing if you stop to think about it. But if the pressure from investors, or the press, or maybe from emerging social or environmental concerns becomes excessive, shareholder meetings turn out to be one of the best ways we know of to blow off steam without really injuring anybody. And ideally, the noise will wake up the corporate cooks before there's a huge mess to clean up or maybe a fatal explosion of the corporate cooking pot, which we have seen way too many for anyone's own good in recent years.

Further to the idea of simply blowing off steam: While this writer is not a big fan of the idea that "stakeholders" should have the same rights at the corporate dinner table that shareowners do, we have witnessed many instances over the years where the concerns of social investors and other stakeholders were important for public companies and their shareholders to air and to take into account, if only to preserve the

A modest proposal from Norm Augustine

Ed. Note: The following is an excerpt from an article written by Norman Augustine for the *Directors & Boards* Boardroom Briefing special report on "The Future of Annual Meetings" published in 2004. Augustine is the retired chairman of Lockheed Martin Corp. and has served on a number of boards, including Procter & Gamble Co. and ConocoPhillips, and is a member of the editorial advisory board of *Directors & Boards*.

The question arises whether annual meetings, born as the embodiment of corporate democracy, have become an anachronism from another era — a Theater of the Absurd, wherein anyone can be guaranteed a stage, a captive audience, and a moment in the spotlight… the corporate world's version of karaoke.

Arguments in favor of continuing these events, hopefully in a more constructive fashion than has too often become the case, include the observation that the democratic process indeed forms the underpinning of American business and what could be more democratic than an annual meeting in which all shareholders are given an equal opportunity to confront those who in fact are their employees? Further, it is hard to imagine that there could be a worse time to take a step away from direct shareholder involvement in corporate governance than on the heels of Enron, WorldCom, Tyco, et al. This alone is enough to frighten most prudent CEOs from supporting any proposal to repair the annual meeting. Also, some annual meetings actually are productive — Berkshire Hathaway's gatherings being Exhibit One in this regard. But, then, how many CEOs have as much wisdom to share with their shareholders as does Warren Buffett?

Arguing against continuation of these displays of corporate-democracy-gone-awry include the facts that when such meetings are called to order, the CEO usually has 80-90% of the votes to be cast already safely stuffed in his or her pocket; that 99% of the time devoted to the meetings is consumed by holders of less than 1% of the shares; and that, in this age of global business, almost all the attendees happen to live within 20 miles of where the meeting is being held, which itself was probably selected because that's where the corporation's founder was born a century ago.

Indeed, most of those who do attend the gatherings seem to be either retirees enjoying a reunion, union members seeking to circumvent the collective bargaining process by negotiating a new contract directly with the CEO in front of the media, disgruntled former employees, reporters seeking oddities for the Style section, rebels with a (social) cause — usually unrelated to management's ability to redress their grievance — or gadflies seeking their 15 minutes in the sun. No self-respecting large shareholder would normally be seen dead at an annual meeting, nor would most analysts.

Norm Augustine: The challenge is to drag the corporate version of the 19th century towne meeting into the reality of the 21st century global marketplace.

But the really bad news is that staging one of these extravaganzas can easily cost over $1 million — and that assumes there is no value to the time devoted by the members of management whom the CEO has compelled to be present, in spite of their impassioned pleas that they need to be with their sick Aunt Minnie, their injured dog, or even at their dentist, having a root canal.

With all of these flaws, it must be admitted that annual meetings are, or at least could be, an important venue for institutional investors and individual shareholders to constructively question and interact with those to whom they have entrusted their savings. The challenge is thus to drag the corporate version of the 19th century towne meeting into the reality of the 21st century global marketplace. Fortunately, modern technology makes this entirely feasible. But the correct answer is not the obvious one, which is to videoconference or webcast the annual meeting. This would merely convert what is now a local exercise in gaining 15 minutes of fame into a full-fledged Olympic cybersport.

The proposal I would like to offer is actually quite simple and is intended to permit broader shareholder participation in corporate governance and to enable a richer and more constructive exchange of information between a firm's owners and its management — and to do all this at less cost than is being devoted today. The process would consist of five steps:

- First, management would issue an annual report, both on the Internet and, for those who wish, in hardcopy. The report, in addition to the usual financial information and CEO letter, would contain a plain-English presentation of management's view of the top 10 issues facing the firm as well as management's plans for dealing with them.
- Second, interested shareholders would submit to the firm's outside (and presumably independent) auditor questions and comments that they would like to have addressed by management.
- Third, the outside auditor would compile the shareholder submittals to eliminate duplication and irrelevance, and submit a highly consolidated set of questions and comments to management.
- Fourth, management, thus granted the time needed to carefully consider the content of its reply, would respond to the questions and comments which had been posed.
- Fifth, shareholder voting would take place by electronic mail or snail mail, again according to each shareholder's preferences.

It would seem that the current emphasis on enhanced corporate governance affords the perfect opportunity to revise nonproductive practices that were established in the distant past.

Norm Augustine's complete article along with the entire annual meeting-themed edition of the *Boardroom Briefing* can be accessed on the journal's website (www.directorsandboards.com).

corporate reputation as a good corporate citizen. And often, corporate policies and actions with respect to social issues (like apartheid, to go back to the earliest days of social investing) or today's child-labor or environmental concerns, *can* have an impact on a company's long-term bottom line.

Size up the team

Last — and our own main reason for loving well-run annual meetings — they present a truly unique opportunity for investors of every description to size up the entire leadership team … and the real culture of the company. This in our book is a good reason in itself to have an annual shareholder meeting, especially in light of how easy it's been to demonize the leadership, and sometimes the entire company, when something goes wrong, as inevitably something will.

The big fixes

So if we can agree that the annual shareholder meeting is still worth holding, even while the traditional model could use some fixing, what kind of fixes should we be considering?

• ***"Virtual Shareholder Meetings": A New and Better Model?*** — Over the past two years, a number of companies have been experimenting with "virtual meeting" models, not just as a way to lower costs but to reach far more people, far more effectively than the old in-person-only meeting model can possibly achieve. As annual meeting lovers, we truly love this idea. First off, we'd say that for those 12,000-plus companies that have nothing controversial on their agenda, and who typically have no one show up at the meeting, having the meeting totally in cyberspace is an opportunity to save tons of shareholder money on meeting logistics, with no real downside potential that we can see.

Oddly, several activist investors protested that a virtual-only meeting would allow companies to "hide" from investors, to avoid taking questions or allow companies to take them selectively, or re-phrase them to suit — and would consign shareholders to what one social investor called a "cyber-ghetto" where their cries of protest would not be heard. But as events soon proved, when Symantec Corp. encountered a few technical glitches at its virtual-only meeting held in 2010, there is no place to hide in cyberspace. Quite the opposite: Every little good governance misstep or miscue, whether real or perceived, hits the Internet discussion boards in a flash. And activists, once they thought more on this, seem to be realizing that virtual meetings increase the size of their own audience enormously and essentially at no cost to them to boot. (We also believe we've overcome their objections to the potential cyber-ghetto by recommending that companies that want to have virtual-only meetings allow shareholders to come in person if they really insist, as long as they provide reasonable advance notice of their intention to come.)

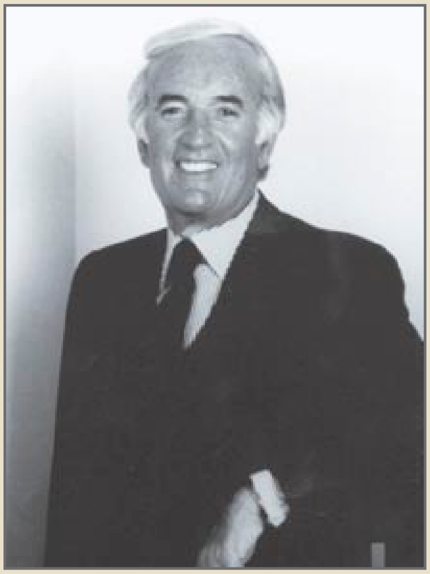
This said, however, at least 1,500 public companies will quickly discover that they are perfectly happy with their tried-and-true "old model" and that they don't want to do away with their in-person venues that are mostly populated by friendly investors like customers, suppliers and retirees. And a huge number of public companies — spanning the range from little local banks to regional gas and electric utilities to big companies like Berkshire Hathaway and Wal-Mart, which draw over

The annual meeting as the (lost) art of romance

Ed. Note: The following is an anecdote about one of the legendary CEOs who ruled the entertainment business — Steve Ross, former head of Time Warner Inc. Connie Bruck tells this story in her 1994 biography of Ross, *Master of the Game: Steve Ross and the Creation of Time Warner* (Penguin Books). Bruck has been a staff writer at *The New Yorker* magazine since 1989, writing about business and politics. Ross died in 1992.

From the start, Steve Ross prided himself on his shareholders' meetings.

Over the years, he would become more polished, but even in the early days of Kinney Service he came to these events like a natural; showcasing his depth of knowledge about the company, his numerical nimbleness, his salesmanship so consummate that it seemed more about the art of romance than about selling.



Steve Ross: He played his shareholder meetings 'to a tie.'

As he did with other business tasks, Ross made his preparation for these meetings into a game; he challenged his associates to find a question that would stump him, as though he were about to appear on one of his favorite television quiz shows.

He had a strategy for these meetings ("You never play a shareholders' meeting to win, you play to tie") as, it often seemed, he did for everything in life. And once he was on the podium, taking questions from the audience like so many lobbed balls, he seemed to want them to go on forever. "To make him stop answering questions," recalled the company's longtime secretary, Allen Ecker, "you'd have to turn out the lights."

30,000 attendees each — couldn't do away with them if they did want to.

Maybe half of the 1,500 or so companies that like their annual meetings and think they add value will decide that a "hybrid meeting" — where people can attend in person or via a live feed over the Internet — is a wonderful option for all concerned, and well worth the added cost. The other half, we bet, will decide the game isn't worth the candle, at least in years when, literally, there is nothing newsworthy going on. But for any company that wants to reach out to a larger and often more sophisticated investor audience, making a shareholder meeting interesting enough for "prime time" presents quite a challenge — and quite a worthy one, we think — and one that often *will* be worth the candle to produce. (Visit the Best Buy Corp. website for a good example of what is possible here,)

• ***Virtual Forums*** — Another great good-governance innovation has been the idea of company-hosted "virtual forums" that will allow investors — and other interested parties, if permitted by enlightened management — to raise issues and ask questions in advance of the shareholder meeting. Aside from contributing to a far richer and broader dialogue than a traditional in-person-only meeting can possibly foster, it can serve as a valuable early warning sign and as a useful pressure-release-valve; plus it assures that the company site, and not a passel of "discussion boards" populated by anonymous bloggers and mischief-makers, will be the authoritative site for such discussions.

• ***Fighting "The Toaster Factor": The Need for Much Better Shareholder Education about Annual Meeting Matters*** — If we could single out only one thing for fixing, we'd cite the "toaster factor." Simply put, most annual meeting materials that cross our desks, or increasingly our desktops these days, are not the least bit compelling. So we put them behind the toaster, or in a little pile somewhere, to maybe look at later. But, more often than not, as the statistics clearly show us, we simply throw them in the trash or hit delete, or do it weeks later, when the meeting is long over.

To get the bigger bang

Here's a short list of "fixes" to better cope with the money-wasting "toaster factor" and to get a much bigger bang for the big bucks your company spends on the annual meeting:

1. *Design and package your annual meeting information to invite and ideally to command a moment of shareholder attention.* More and more companies have ditched the old-time full-color annual report with the eye-catching and easy-to-understand performance charts, the friendly Chairman's Letter and head-shot, and maybe some photos of the leading products, brands, etc. that basically got one's attention and set the stage for at least a casual skim-read. No wonder that people are not voting their proxies or thinking that a visit to the meeting would be worthwhile when we look at the totally awful materials that are being cranked out today as a way to "save money" — and served up to investors looking like a subpoena, or maybe a class action suit. Your company's "wrap" or webpage-opening document doesn't have to be expensively produced, or, God forbid, lengthy, but it *does* need to command our attention or it won't get any!

2. *Get your writers to stop slavishly following the sequence numbers in the SEC rulebook as they organize and present your annual meeting materials.* Ditch the old "playbook" and all those pages of legalese (which still have to go somewhere, of course) and cut to the chase: Start off with a snappy, up-front summary of the matters to be taken up at the meeting and with some information as to why shareholders should care, and push all the legal lingo and footnotes to the end where they belong.

A 'hybrid meeting' where people can attend in person or via a live feed over the Internet may be a wonderful option for all concerned.

3. *Provide shareholders with some information about the fact that their votes do have value.* And provide them with some easy-to-follow information on how to decide on their votes and on how to cast their votes. (Email me at the contact information below for a copy of the author's own little primer on this subject if you're interested.)

4. *Use the Internet as a marketing and educational tool* . . . and not just as a cheap and easy way to dump the legally required info on your already over-busy shareholders. When you can deliver your meeting materials electronically, as increasingly you can, think about emailing a little cover note, or maybe appending a video clip, with a short but sweet message from the chairman, and maybe a place to click to find out how and why their votes have value — and anything else you can think of that will motivate shareholders to pay a bit of attention, cast their votes while they're at it, and, ideally, vote with the management recommendations.

Last, and most important of all, we think, when reflecting on your own company's annual meeting, ask your meeting planners, and yourselves: "Can we be getting *more* for all the time and effort and money we put into the darned thing?" ■

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