

## ON-LINE INVESTORS ARE TRANSFORMING CORPORATE GOVERNANCE

The explosion of on-line trading is dramatically changing the ownership of many public companies, particularly “e-commerce” firms and other “hot stocks”. This year some of our clients have seen astonishing increases in the number of investors holding 100 to 1,000 shares in retail brokerage accounts. It is estimated over five million people are now trading on-line in the United States. *These independent investors are trading more frequently. They often hold their shares for only a few hours, days, or weeks.*

On-line investors are constantly talking with each other. The Internet is a world wide “party line” where investors chat on Motley Fool, Raging Bull, Silicon Investor, Yahoo!, and scores of other financial sites. Stocks are touted and trashed; investor emotions rage, volatility accelerates, and stock prices whipsaw. *Public companies are in for a wild ride in the new millennium.*

## SHAREHOLDER BASES ARE MUTATING RAPIDLY

Pinning down who owns a company’s shares was relatively easy before the advent of on-line investing. Usually corporate insiders and several dozen institutions held majority control. Certain issuers are now finding that their shareholders are a few portfolio managers and vast numbers of small investors. *The majority of outstanding shares in a highly active stock may change hands one or more times between the Record Date and the Meeting Date.* This new phenomenon will make it much more difficult and expensive to solicit proxies for non-routine proposals such as stock option plans, rights plans, and shareholder approval of mergers. Tender and exchange offers will also be impacted by transient investors.

## ANGRY INVESTORS ARE REVOLTING IN CYBERSPACE

The SEC proposed amendments to the Regulation of Takeovers and Security Holder Communication on November 3, 1998 that would permit “free communications” by issuers with security holders. The SEC is also considering creating a broad “safe harbor” under the proxy rules permitting “test the waters” communications with investors without requiring filing or delivery of a proxy statement, so long as no proxy voting form is delivered.

*On-line investors haven’t waited for the SEC. They dived in.* The Wall Street Journal reported on September 27, 1999 that an East Texas truckers’ association used a Yahoo! message board to solicit proxies from 600 investors in Dallas-based Coho Energy. The group said it collected proxies for more than half of Coho’s outstanding shares with the intent of ousting the company’s CEO. Securities lawyers believe the dissidents may have violated SEC Proxy Rules. Angry shareholders don’t believe they did anything wrong! We have observed similar investor revolts erupt in Canada and the U.K.

Allen Nelson & Co. has managed several Internet proxy contests beginning on December 15, 1995 when we launched the first proxy contest in cyberspace to successfully defend the management of Sutton Resources in Vancouver, Canada. The Internet strategies we have devised enable us to quickly solicit proxies worldwide in support of clients waging battles for corporate control.

## TRACKING “STREET NAME” SHAREHOLDERS IS ESSENTIAL

Most individuals and institutions hold their shares beneficially in brokerage firms and banks clearing through The Depository Trust Company in New York City (Cede & Co.) and the Canadian Depository for Securities in Montreal (CDS & Co.). *Frequent review of depository lists is critical for issuers wishing to monitor a rapidly mutating shareholder base.* NOBO lists, available only in the U.S., are an excellent source for current individual share positions, however, as the ranks of small shareholders grows, NOBO lists may become huge, yet not contain many large share positions. Quarterly regulatory filings by institutional investors remain useful although these required filings (45-days after the quarter’s end) are a glance into the rear-view mirror that is no longer complete or accurate. Allen Nelson & Co. provides customized WorldProxy<sup>sm</sup> shareholder identification programs to many public companies in the United States and Canada.