Financial Remedies Workshop 3
Overcoming the Obstacles to Recovery
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Agenda

- Goals/Objectives
- Irrational Exuberance
- Governance/Incentives
- Regulatory Institutions
- Villains?
- Remedies

Goals/Objectives

To analyze the financial infirmities of the communications sector & how to correct them

Agenda

- Goals/Objectives
- Irrational Exuberance
  - Precipitating Events

Goals/Objectives

- Recovery from What to What?
- What are the Problems?
- What are the Policy Goals?
  - Targets?
  - Measures of success?
  - Goals achieved?

Precipitating Events

- Psychological Factors
- Retirement Plans (401k)
- Baby Boomers
- Media Coverage Increased
- Cultural Factors
- Incentive Structure
- Internet/Telecom Boom
Precipitating Events

- Incentive Structure

Precipitating Events: Incentive Structure

- Stockholders' Class Action
  - Lawsuits Difficult
  - Private Securities Litigation Reform Act of 1995
  - False and misleading statements harder to prove

Precipitating Events: Incentive Structure

- Stockholders' Lawsuits
- Stock Options
  - Tax treatment of options
  - Cap on tax deduction of executives' compensation

Precipitating Events

- Incentive Structure
- Internet/Telecom Boom

Agenda

- Overview
- Irrational Exuberance
- Governance/Incentives

Governance/Incentives

- Principal/Agent Problem
- Corporate Abuses
- Bankers' Abuses
Governance/Incentives

- Principal/Agent Problem

Governance/Incentives -- Agent Problem

- Separation of Ownership & Control

Governance/Incentives -- Agent Problem

- Board of Directors
  - Rolodex boards
  - "Collegiality trumps independence"
- Interlocking Directorates
  - Compensation Committees
  - Audit Committees

Governance/Incentives Remedies

- Independent Boards
- Limits on Interlocking Directorates
  - Independent Compensation Committees
  - Independent Audit Committees

Governance/Incentives

- Principal/Agent Problem
- Corporate Abuses
Governance/Incentives

- Principal/Agent Problem
- Corporate Abuses
  - Compensation
  - Perks
  - IPO Allocations
  - Self-dealing
    - Supply side
    - Borrowing

Governance/Incentives

- Principal/Agent Problem
- Corporate Abuses
- Bankers' Abuses

Governance/Incentives

- Principal/agent problem
- Corporate Abuses
- Bankers' Abuses
  - Valuations
  - Pushing growth
  - IPO Allocations
  - Undervaluing IPO's
  - Price manipulation

Governance/Incentives -- Bankers

- "New Economy" Valuations
  - "Eye balls"
  - Capital expenditures
  - Capacity
  - Market potential
  - ...

Governance/Incentives -- Bankers

- "New Economy" Valuations
- Pushing growth
- IPO Allocations
  - Friends & family
  - Reward to clients
  - E.g. Ebbers -- $200 million
Governance/Incentives -- Bankers

- "New Economy" Valuations
- Pushing growth
- IPO Allocations
- Undervaluing IPO's
  - Thirty percent (30%)
  - Not to corporation
  - Friends & family/Reward to clients

Regulatory Institutions & Controls

- Federal Communication Commission
- Security & Exchange Commission
  - Enforcement
  - Regulations

Regulatory Institutions & Controls

- Federal Communication Commission
- Security & Exchange Commission
- Audit Houses
  - Independent of consulting

Regulatory Institutions & Controls

- Federal Communication Commission
- Security & Exchange Commission
- Audit Houses
- Rating Agencies

Agenda

- Goals/Objectives
- Irrational Exuberance
- Governance/Incentives
- Regulatory Institutions

Agenda

- Goals/Objectives
- Irrational Exuberance
- Governance/Incentives
- Regulatory Institutions
- Villains?
Villains?

- Barons of Bankruptcy
- Bankers of Bankruptcy

Barons of Bankruptcy
- Global Crossing’s Gary Winnick $512.4
- WorldCom’s Scott Sullivan $49.4 million
- McLeodUSA’s Clark McLeod $99 million
- ___ Richard Lumpkin $116 million
- Qwest’s Phil Anschutz $1,200 million
- ___ Joe Nacchio $?? million

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- Governance/Incentives
- Villains?
- Remedies?

Remedies?

- Inside Corporation/Institution
- External to ...
- Independent Boards
- Anonymous Whistle Blower
- ...

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