

# AT&T Shareholders Demand Answers

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Some AT&T shareholders want more than just dollars and cents from the board of directors in the aftermath of the company's aborted takeover of T-Mobile: They want to know how company money is being spent to influence politics.

A slew of corporate boards — including those of Apple, Ford and Pepsi — are being petitioned this proxy season by stockholders demanding an accounting of corporate funds being spent on campaigns, super PACs and political causes as corporate governance experts and members of Congress press for new federal rules.

“Companies like AT&T are not tracing where shareholder money goes, and there needs to be due diligence on every political contribution, because it could have a wide-ranging effect that could impact the reputation of the company,” said Adam Kanzer, managing director and general counsel for Domini Social Investments, an AT&T shareholder group trying to get the company to disclose more of its political spending.

The investor movement for more transparency of corporate funds used for politicking was energized by the U.S. Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission*, which opened the door for unlimited political spending by corporations and new avenues to mask the source of money.

This year, investor angst will focus on a range of industries, from defense to the auto sector, and a large number of tech stalwarts the likes of Google, IBM and Intel, according to Institutional Shareholder Services, the largest proxy advising consulting firm.

Apple's investors for the second time in the company's history have placed a political disclosure measure on the ballot to be considered later this month. Shareholder petitions on political spending are also expected at Comcast and CenturyLink.

“Shareholders are clamoring for this information,” said Robert Jackson, an associate professor at Columbia Law School and one of 10 corporate governance experts petitioning the Securities and Exchange Commission to require companies to report all political spending to investors. “They want to make sure companies are spending that money in a way that is consistent with shareholder interests.”

AT&T, which runs Washington's largest corporate PAC, will be pushed by investors to publish a semiannual report that tracks where every political dollar goes and what cause that money supports.

The divide over political disclosure at AT&T is nothing new — shareholder groups have been pressuring the company on the issue since 2004. Measures have repeatedly failed to gain a majority vote among AT&T investors, though last year's vote came close to garnering one-third of shareholder votes.

This year, however, AT&T investors are planning to put the measure up for vote again, and they'll have fresh ammunition on their side as the company is coming off a publicly bruising and politically expensive battle over its failed T-Mobile deal.

“AT&T’s recent complete disaster in the Deutsche Telekom deal ... that’s exactly the kind of thing that will make the board and managers and shareholders think long and hard about disclosure of political activity,” said John Coates, a corporate governance expert and professor at Harvard Law School.

In SEC filings, AT&T says it fully adheres to the letter of the law when it comes to disclosing federal and state contributions. Corporate PAC contributions are housed on the Federal Election Commission website, and state laws generally dictate how the company discloses money spent outside of federal elections.

That, however, is not what investors are worried about.

Shareholders want AT&T to come clean on how much money it gives trade associations and other tax-exempt organizations, like 501(c)(4) groups, that do not have to disclose donors. The *Citizens United* decision is creating new ways for groups to funnel money that make it nearly impossible for the public, and in some case companies, to trace.

“The notion that a major company might be funding an attack ad for a federal candidate, that’s whoa — that’s really risky behavior,” added Kanzer.

But the company has repeatedly rejected those shareholder proposals in SEC filings.

In a statement to POLITICO, the company brushed aside the proposals on political disclosure as failed attempts that voice concerns of only a minority of shareholders.

“It’s worth noting that while for six of the last seven years a political contributions disclosure proposal has been included in our proxy statement, in none of these years has the proposal received more than 32 percent of the votes cast,” AT&T said, “which suggests that our stockholders are satisfied with our current level of disclosures.”

The shareholder revolt on political disclosure is drawing attention.

Several corporate governance professors launched an SEC petition that has already attracted more than 21,000 comments urging the agency to adopt new rules for political disclosure.

The message has even reached some lawmakers. Rep. Michael Capuano (D-Mass.) has legislation pending dubbed the Shareholder Protection Act, which would not only require public companies to disclose all political spending, but it would also mandate an annual shareholder vote to approve a political spending budget.

Investors, however, aren’t waiting for Congress or the SEC to act. They’re taking a company-by-company approach to drive reform.

The proposals being put forth this proxy season by shareholders against a variety of companies are all nonbinding. The companies can adopt or ignore them, though they are widely regarded as expressions of investor sentiment.

The most popular seek to press companies to disclose all political spending and the policies behind those decisions. About 50 proposals of this sort, all sponsored by the Center for Political Accountability, are expected this proxy season, including the AT&T measure.

Some like the one facing CenturyLink are narrow and seek disclosure on direct and indirect lobbying expenditures.

And other shareholders are pushing proxy measures that would give them a direct say on how corporate money is spent on politics — that's the kind of measure expected to come to vote at Google and Intel.

In all, proxy advisory firm ISS is tracking about 100 political disclosure measures this year, a roughly 20 percent increase from last year.

And those shareholder petitions have been gaining momentum over the years: Since starting a campaign in 2004, 57 of the largest 100 U.S.-based firms have adopted some level of voluntary disclosure guidelines proposed by the CPA.

The average proxy vote on the issue now garners about a 33 percent vote, said Bruce Freed, president and founder of the CPA.

“That's the type of vote,” he said, “that in many cases will lead a company to say, ‘This is something we should adopt.’”

Take Verizon, for example. The company in 2006 bowed to shareholder concerns and started disclosing semiannual federal PAC and state corporate contributions on its website after investors lobbied the company for three years in a row and secured a vote in the 30 percent range.

And Sprint, which has traditionally opposed the political disclosure votes on the same grounds as AT&T, has also started posting data about state corporate contributions on its website.

That, however, is not good enough, some shareholders told POLITICO. A group of Sprint investors is planning to reintroduce a measure asking the company's managers to start disclosing all political spending.

“The phone companies are still very old and have been engaged in politics for ages, so some of them are still very resistant. But the companies that are resilient are the outliers,” Freed said.

On the flip side, several tech companies are lauded as champions in this arena.

By all measures, IBM is the gold standard. It has a long-standing policy prohibiting the use of corporate money for political spending. The company also has no PAC and received a perfect score in a comprehensive report by the CPA published late last year.

Still, its investors this year want to know how much in dues the company pays to trade associations and “other organizations that can hide any contributions.” And they want a comprehensive report on lobbying activities.

Intel, Dell, Hewlett-Packard and Microsoft round out the other tech heavyweights whose disclosure policies ranked highest in the CPA report. Pfizer, UPS and Wells Fargo represent several other corporations that have adopted some level of political disclosure.

And it doesn't always have to be the result of several years of tense negotiations, shareholders say. For example, American Express agreed several years ago to work with investors after an initial ballot measure was filed, said Kazner.

At Microsoft, shareholders also never had to endure a public cat fight with the company over its political disclosure policy. Management worked out an agreement with investors long before those concerns ever reached the ballot.

“I can say since we have been disclosing the names of candidates, I have never received a challenge from an investor or from an advocacy group asking why we made this contribution or why we didn't make a certain contribution,” said Dan Bross, Microsoft's senior director of corporate citizenship. “This fear that some companies have that if they disclose they will be inundated with questions ... it doesn't bear itself out in fact based on my experience.”