

Meridian Client Update

Update on Vote Outcomes for Say on Pay and Say on Vote Frequency

Summarized below are updated vote outcomes on management Say on Pay proposals (“Say on Pay”) and on management proposals as to the frequency of the Say on Pay vote (“Say on Vote Frequency”) for **Standard & Poor’s 500 companies** (“S&P 500”). Also updated are statistics on board recommendations on Say on Vote Frequency.

Shareholders Overwhelmingly Support Say on Pay Proposals and Annual Say on Pay Vote Frequency

Thus far, 124 S&P 500 companies have reported vote results on management Say on Pay proposals. Shareholders approved management’s Say on Pay proposal, **except** in the case of Jacobs Engineering, Hewlett-Packard, Stanley Black & Decker and Janus Capital. Eleven Russell 3000 companies not included on the S&P 500 Index – including, most recently, Stewart Information Services, NVR, Penn Virginia and Dex One – also have failed to receive a majority support for their Say on Pay proposals.

Shareholder Vote	Prevalence S&P 500 (n = 124)
▪ Say on Pay Proposals Approved	96.8%
▪ Say on Pay Proposals Voted Down	3.2%

Generally, Say on Pay proposals which were approved by shareholders have passed by large margins; on average, **87% of votes cast have approved the proposals**. A number of Say on Pay proposals were more narrowly approved, including Johnson & Johnson and Lockheed Martin, where 61% and 69% of votes were cast in favor of Say on Pay proposals, respectively.

So far this proxy season, ISS has offered the following vote recommendations on Say on Pay proposals at S&P 500 companies:

ISS Vote Recommendation	Prevalence S&P 500 (n = 353)
▪ “For” Recommendation	87.0%
▪ “Against” Recommendation	13.0%

Recent Concessions by Major Companies

Notably, four major companies – General Electric, Walt Disney Company, Alcoa and Lockheed Martin – made significant concessions regarding their executive compensation practices after initially receiving negative vote recommendations from ISS on their Say on Pay proposals. Disney obtained ISS’s support by agreeing to eliminate tax gross-up provisions from existing employment contracts for four top executives. GE garnered ISS’s support after agreeing to implement additional performance conditions to CEO Jeff Immelt’s existing 2010 stock option award. Among other changes leading to ISS’s support of its Say on Pay proposal, Lockheed Martin provided that 50% of the stock options granted to the CEO in January 2011 will be forfeited if the company does not generate \$4 billion in cash from operations for 2011. Alcoa gained ISS’s support after it selected different performance metrics associated with short-term and long-term incentives and provided for a three-year performance period with regard to performance-based restricted stock units.

As more votes are tallied, we will be tracking actual vote outcomes against ISS vote recommendations.

Say on Vote Frequency (Boards and Shareholders Favor Annual Say on Pay Vote)

Of the 415 S&P 500 companies that have filed their 2011 proxy statements, slightly more than two-thirds have recommended that shareholders approve an annual Say on Pay vote. We expected this significant shift toward annual vote frequencies as more companies took into account the policies of proxy advisory firms and institutional investors in making their recommendations.

Board Recommendations	S&P 500 Prevalence (n =415)
▪ Annual	67%
▪ Biennial	3%
▪ Triennial	26%
▪ No recommendation	4%

The foregoing board recommendations on Say on Vote Frequency have shown modest variance based on company revenue and market capitalization.

Board Recommendation	Annual Revenues			Market Capitalization		
	Under \$1B	\$1B to \$10B	Over \$10B	Under \$1B	\$1B to \$10B	Over \$10B
N =	10	227	178	1	177	237
▪ Triennial	30%	29%	22%	0%	28%	25%
▪ Biennial	0%	3%	3%	0%	3%	3%
▪ Annual	70%	65%	70%	100%	67%	67%
▪ No recommendation	0%	3%	5%	0%	2%	5%

Shareholders have overwhelmingly supported **annual** Say on Pay at S&P 500 companies.

Vote Result at S&P 500 Companies	% of Companies Receiving the Indicated Vote Result (n = 123)
▪ Annual	93%
▪ Biennial	1%
▪ Triennial	6%

We expect reported vote outcomes for the remainder of this proxy season not to significantly vary from the foregoing vote results.

Say on Pay Votes That Failed to Receive a Majority Support

Below we highlight the key factors believed to be influencing the vote outcome at the four S&P 500 companies that failed to obtain a majority vote in support of their advisory vote on executive compensation at their 2011 annual shareholders' meetings. No one really knows why shareholders voted the way they did, but **all** companies failing their Say on Pay votes have had ISS "against" recommendations and clues are to be found in those ISS reports.

Jacobs Engineering

Jacobs Engineering's shareholders voted down its Say on Pay proposal, with 55% of shareholders voting against the proposal. ISS cited a pay-for-performance disconnect as its rationale for recommending against the Say on Pay proposal. It appears the motivation for this adverse vote may have been the company's 1- and 3-year total shareholder returns of -16% and -20%, respectively. The current CEO's total compensation also rose by 34% year over year. The driver of the increase in CEO's total compensation was the grant of 125,000 time-vesting restricted stock award made in May 2010, compared to none in 2009 and 2008.

Hewlett-Packard Company

At its annual meeting on March 23, Hewlett-Packard failed to obtain majority support of its pay packages, with 52% of shareholders voting against the proposal. The negative vote is likely be based upon shareholder concerns about both compensation and governance matters. The primary factors that may have influenced the vote results were the \$12 million cash severance that departing CEO Mark Hurd received and the magnitude of the sign-on package awarded to Leo Apotheker, HP's new CEO, which included substantial up-front awards of cash and equity. Finally, shareholders may have signaled their discontent with the role of Mr. Apotheker in the selection of new board members.

Stanley Black & Decker

Following its annual meeting on April 19, Stanley Black & Decker became the sixth company to report that its Say on Pay proposal failed to receive majority support. Stanley Black & Decker reported that 61% of shares voted against its advisory vote on executive compensation. ISS recommended voting against the Say on Pay proposal based on the company's "failure to address low voting support for Compensation Committee members and high executive pay packages relative to performance." Last year, Virgis Colbert, who chairs the Compensation Committee, received only 46% support for his reelection, and another committee member, John Breen, was reelected with less than 58% support. Both Colbert and Breen remained on the Compensation Committee.

ISS recommended withholding votes from Compensation Committee members at last year's annual meeting primarily because of the employment agreement that the company entered into at the time of the merger between The Stanley Works and The Black & Decker Corporation providing for three years of guaranteed equity awards to its executive chairman, Nolan Archibald. Additionally, investor concern in 2010 may have related to the potential \$45 million bonus to Mr. Archibald for achievement of merger-related synergies.

Janus Capital Group

At Janus Capital Group's 2011 annual shareholders meeting on April 28, the asset management firm received only 40% support for its Say on Pay proposal. According to ISS, investor dissent is likely to have resulted from the large sign-on bonus received by new CEO Richard Weil, who joined the company in February 2010. Janus Capital awarded him \$10 million in restricted stock and \$306,287 in relocation expenses, which included a tax gross-up of \$114,670. ISS valued Weil's total compensation package at \$21.3 million.

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The ***Client Update*** is prepared by Meridian Compensation Partners' Technical Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-235-3605 or dkalfen@meridiancp.com.

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