

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 Continue to Overwhelmingly Support Say on Pay Proposals and Annual Say on Pay Vote Frequency Among Major U.S. Companies

Thus far, 420 S&P 500 companies have reported vote results on management Say on Pay proposals. Shareholders have approved management’s Say on Pay proposal, **except** in the case of Jacobs Engineering, Hewlett-Packard, Stanley Black & Decker, Janus Capital, Masco Corporation, Constellation Energy Group, Nabors Industries and Freeport-McMoRan Copper & Gold. In addition, 29 Russell 3000 companies not included on the S&P 500 Index also have failed to receive a majority support for their Say on Pay proposals.

Shareholder Vote	Prevalence S&P 500 (n = 420)	Prevalence Russell 3000 (n = 2,270)
▪ Say on Pay Proposals Approved	98.1%	98.4%
▪ Say on Pay Proposals Voted Down	1.9%	1.6%

Generally, Say on Pay proposals which were approved by shareholders have passed by large margins; on average, **89% of votes cast have approved the Say on Pay proposals** at S&P 500 companies. However, a number of Say on Pay proposals were more narrowly approved, including Pfizer, Johnson & Johnson and Lockheed Martin, where 56%, 61% and 69% of votes were cast in favor of Say on Pay proposals, respectively.

Comparing these vote outcomes to the prevalence of ISS’ negative vote recommendations shown in the chart below demonstrate that, as a general matter, shareholders have not been swayed by ISS’ negative vote recommendations. Shareholders have voted down Say on Pay proposals at a small percentage of the companies receiving negative vote recommendations from ISS.

ISS Vote Recommendation	Prevalence S&P 500 (n = 430)	Prevalence Russell 3000 (n = 2,270)
▪ “For” Recommendation	85.8%	87.3%
▪ “Against” Recommendation	14.2%	12.7%

Notably, however, Say on Pay proposals approved by shareholders at companies receiving a negative vote recommendation from ISS generally obtained **lower margins of shareholder support**. On average, such Say on Pay proposals received 67% and 73% of the votes cast at S&P 500 and Russell 3000 companies, respectively. These statistics indicate that ISS' negative vote recommendations often affect the level of shareholder support for Say on Pay proposals, even though they rarely have a decisive influence over vote outcomes.

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

Of the 437 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.

Board Recommendations	S&P 500 Prevalence (n =437)
▪ Annual	67%
▪ Biennial	3%
▪ Triennial	26%
▪ No recommendation	4%

The foregoing board recommendations on Say on Vote Frequency at S&P 500 companies have shown little variance based on revenue and market capitalization as shown by the following chart.

Board Recommendation	Annual Revenues			Market Capitalization		
	Under \$1B	\$1B to \$10B	Over \$10B	Under \$1B	\$1B to \$10B	Over \$10B
<i>n</i>	9	242	186	0	190	247
▪ Triennial	33%	28%	22%	0%	27%	25%
▪ Biennial	0%	3%	3%	0%	3%	3%
▪ Annual	67%	66%	70%	0%	68%	67%
▪ No recommendation	0%	3%	5%	0%	2%	5%

Despite the significant number of companies requesting triennial votes, 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 = 420)
▪ Annual	94.3%
▪ Biennial	0.2%
▪ Triennial	5.5%

Although support for a triennial vote has occurred with slightly greater frequency as this proxy season progressed, only 20% of S&P 500 companies that recommended a triennial frequency have had their board recommendation endorsed by shareholders. Most of these companies have a dual class vote structure, a management-friendly controlling shareholder, or significant insider ownership, which ensures that a large block of shares are voted consistent with the board's recommendation. The S&P 500 companies with fairly dispersed ownership that obtained shareholder support for a triennial vote include United Postal Service, SCANA Corporation and PACCAR.

Vote Result at S&P 500 Companies Whose Boards Recommended a Triennial Vote Frequency	% of Companies Receiving the Indicated Vote Result (n = 110)
▪ Annual	80%
▪ Biennial	0%
▪ Triennial	20%

In general, under Item 5.07 of Form 8-K, companies must disclose their boards' decisions as to how often they will hold future say on pay votes either in the Form 8-K reporting their annual meeting voting results (filed within four business days of the annual meeting) or in an amendment to that Form 8-K. If companies choose the latter, the amendment to the Form 8-K must be filed no later than 150 calendar days following their annual meetings and at least 60 calendar days before their deadlines for submission of shareholder proposals.

Boards have overwhelmingly adopted **annual** Say on Pay at S&P 500 companies, which we expect will become a best practice. To date, no S&P 500 company has adopted a vote frequency that was inconsistent with the preference reflected in the plurality vote of shareholders.

At least four non-S&P 500 companies have adopted a vote frequency that was inconsistent with the preference reflected in the plurality vote of shareholders. In two of these instances (namely, Crocs and Green Mountain Coffee Roasters), after shareholder votes in favor of a triennial frequency, the companies adopted an annual frequency. In the other cases, Annaly Capital Management and American Reprographics adopted a triennial frequency, which is what their boards had originally recommended to shareholders, even though 70% of the voting shares at these companies voted in favor of an annual frequency.

The refusal to follow shareholder preference reflected in a plurality vote for an annual Say on Pay vote frequency may have consequences at a company's next annual shareholders meeting, as we fully expect that proxy advisory firms will adopt policies to recommend against board members on this basis.

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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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