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# Meridian Client Update

## 2013 Proxy Vote Outcomes To Date

For this proxy season, we are tracking and periodically reporting on vote outcomes on management Say on Pay (“MSOP”) proposals for Russell 3000 companies. We also track ISS vote recommendations on Russell 3000 companies’ MSOPs and the correlation between ISS vote recommendations and vote outcomes. Separately, we will be reporting on shareholder proposals relating to executive compensation matters and key corporate governance areas.

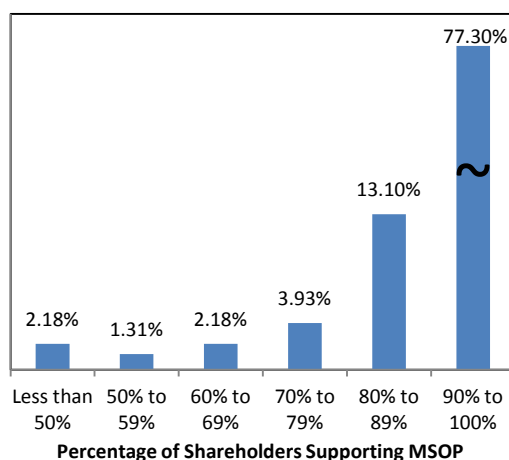
### Early Vote Outcomes Show Shareholders Continue Their Overwhelming Support for Say on Pay Proposals

Thus far, of the 229 Russell 3000 companies that have reported vote results on MSOP proposals, only 5 companies have failed to receive majority support. The Russell 3000 companies whose MSOP proposals were rejected by shareholders are Nuance Communications Inc., Navistar International, Digital Generation, Inc., Biglari Holdings Inc. and Cogent Communications Group Inc. In addition, a Canadian company, Barrick Gold, also had its MSOP vote rejected by shareholders this week, receiving less than 20% shareholder approval.

Shareholder Vote	Prevalence Russell 3000 (n = 229 )
Say on Pay Proposals Approved	97.82%
Say on Pay Proposals Rejected	2.18%

Over three-fourths of these Russell 3000 companies have received at least 90% shareholder support for their MSOP proposals, while approximately 3.5% of these companies received shareholder support ranging from 50% to 70%, the so-called “yellow card” status.

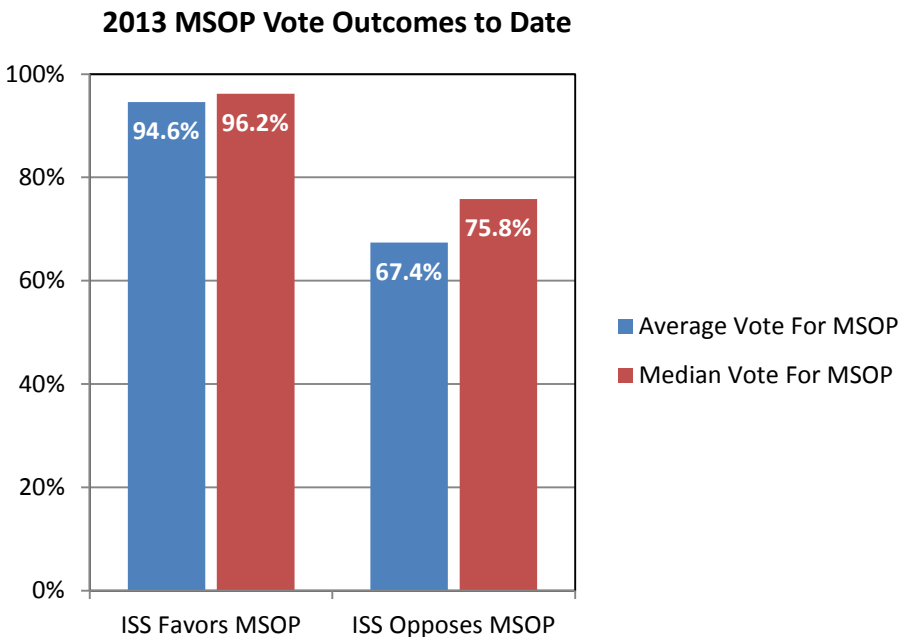
**Prevalence of Vote Outcomes Among  
Russell 3000 Companies (n = 229)**



### Impact of ISS Vote Recommendation on Vote Outcome is Mixed

So far this proxy season, ISS has issued vote recommendations on MSOP proposals for 888 Russell 3000 companies. Of these 888 companies, ISS recommended that shareholders vote AGAINST MSOP proposals for 84 companies (or approximately 9.5%), which is down from full year 2012 (13%).

An ISS AGAINST vote recommendation clearly dampens shareholder support, but generally does **not** result in a negative vote outcome. ISS has issued AGAINST vote recommendations on 25 Russell 3000 companies that have reported vote results so far this proxy season but only 5 of these companies saw their MSOP proposals voted down. However, these 25 companies saw significantly depressed levels of shareholder support relative to shareholder support at companies that received a positive ISS vote recommendation.



So far this proxy season, the median vote in favor of a company's MSOP that is opposed by ISS is 75.8%, up from 66.2% for 2012. This could be an early indication that ISS's influence on vote outcomes may be waning.

### 2013 Vote Results for Companies With Failed 2012 MSOP Proposals

We have also been tracking the vote results at 2013 annual meetings of companies that failed to receive majority support for their 2012 say on pay proposal (see following table). Thus far, several of these companies have successfully turned around last year's vote outcome. Four of these 5 companies have received well over 90% shareholder support for their 2013 MSOP proposal. Generally, these companies turned around the 2012 vote outcome by implementing changes to their executive compensation programs that addressed issues reflected in the 2012 MSOP vote result and/or improved their relative TSR performance, along with more aggressive shareholder outreach programs. We will continue to report on these vote results as meetings occur this proxy season.

2013 Vote Results for Companies With Failed 2012 MSOP Proposals				
Company Name	2012		2013	
	For	Against	For	Against
Kforce Inc.	39.2%	60.8%	97.1%	2.9%
International Game Technology	44.4%	55.6%	96.3%	3.7%
KB Home	45.6%	54.4%	96.2%	3.8%
FirstMerit Corporation	46.0%	54.0%	68.2%	31.8%
Actuant Corporation	46.4%	53.6%	98.9%	1.1%
<b>Median</b>	<b>38.3%</b>	<b>61.7%</b>	<b>96.3%</b>	<b>3.7%</b>

### Shareholder Proposals on Executive Pay and Key Corporate Governance Matters

So far this proxy season, shareholder proposals are principally concentrated in four key areas of corporate governance—the separation of the Board chair and CEO role, the repeal of classified boards, the requirement that the election of directors be subject to majority voting and the reduction of supermajority requirements to amend the charter or bylaws. Nearly all these proposals are currently pending. We expect that these proposals will garner significant institutional shareholder support and some management support.

Shareholder Proposal Type	Prevalence	Pending	Rejected	Approved	Average % Voted For
Independent chairman/separate chair and CEO roles	54	49	5	0	26.7%
Stock retention/holding requirement	32	29	3	0	26.6%
Repeal classified board	27	18	0	9	80.7%
Require majority voting in the election of directors	27	25	1	1	61.4%
Pro-rata vesting of equity awards upon CIC	23	22	1	0	41.1%
Reduce supermajority requirements to amend the charter or bylaws	18	16	0	2	68.2%
Proxy access	9	8	1	0	39.8%

Shareholder Proposal Type	Prevalence	Pending	Rejected	Approved	Average % Voted For
Cease CEO compensation benchmarking policy	3	3	0	0	N/A
Adopt policy on succession planning	2	2	0	0	N/A
Include sustainability as a performance measure for senior executive compensation	2	2	0	0	N/A
Submit future SERPs to shareholder vote	2	2	0	0	N/A
Submit future severance or termination payments exceeding 2.99 times the sum of the executive officer's base salary and target bonus to shareholder vote	2	2	0	0	N/A
Adopt compensation benchmarking policy	1	1	0	0	N/A
Require performance-based vesting of options	1	1	0	0	N/A
Adopt anti gross-up policy	1	1	0	0	N/A
Report on pay disparity	1	1	0	0	N/A
Cessation of all stock options and bonuses	1	1	0	0	N/A
Approve bonus deferral policy	1	1	0	0	N/A

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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](mailto:dkalfen@meridiancp.com).

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