

# Say on Pay Facts and Background

## Shareholder Action

- In 2007, 51 shareholder proposals asking for an advisory vote on compensation proposal came to vote, averaging 42.2% support of for and against. Majority votes of shares cast for and against were recorded at
  - Activision – 69.6%
  - Blockbuster – 57.0%
  - Par Pharmaceuticals – 56.8%
  - Ingersoll-Rand – 56.7%
  - Motorola – 54.0%
  - Valero Energy – 53.0%<sup>1</sup>
  - Verizon – 50.2%
  - Clear Channel Communications – 50.02%
- There have been over 90 Say on Pay proposals already filed for 2008. Pay vote proposals have averaged 43.1 percent support over 35 meetings where preliminary or final results are known, according to RiskMetrics Group data.<sup>2</sup> To date, there have been nine majority votes recorded so far:
  - Apple – 50.7%
  - Alaska Air – 53.0%
  - **Ingersoll-Rand – 54.0% (two years in a row)**
  - Lexmark International – 59.8%
  - **Motorola – 54.0% (two years in a row)**
  - PG&E – 52.7%
  - Rackable Systems – 51.4%<sup>3</sup>
  - South Financial Group – 51.9%
  - Tech Data – 61.8%

## Companies Are Implementing Say on Pay

- Aflac was the first US company to agree to give shareholders a Say-on-Pay in 2008, and it was overwhelmingly supported by 93% of shareholders. RiskMetrics and Littlefield join Aflac as the first adopting companies to give shareholders an advisory vote in 2008. At RiskMetrics, 94% of shareholders supported RiskMetrics' approach.
- Additionally, Par Pharmaceuticals, Blockbuster, Tech Data, MBIA and Verizon will each give shareholders Say-on-Pay in 2009.

## Say on Pay as Engagement Tool

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<sup>1</sup> Valero states that “abstains” count as “against” votes, and therefore the proposal did not pass. However, out of the votes cast “for” and “against” the proposal, it received a majority.

<sup>2</sup> Walton, L. Reed, “U.S. Midseason Review,” *Risk & Governance Weekly*, May 23, 2008.

<sup>3</sup> Rackable states that “abstains” count as “against” votes, and therefore the proposal did not pass. However, out of the votes cast “for” and “against” the proposal, it received a majority.

- The shareholder vote would not override compensation decisions, but would allow shareholders to weigh in on whether they believe the executive compensation is warranted. Allowing an up or down vote on pay would encourage our company to explain and justify the executive pay policy to shareholders.
- Institutional investors filing Say on Pay proposals believe as a general principle that a company should communicate to its shareholders how executive pay is tied to performance.
- An advisory vote would be an opportunity for shareholders to express approval and confidence in a company's executive compensation, or conversely to let the board know that improvement in overall pay practices is needed.
- In the UK, Say on Pay is widely viewed as a useful means of engaging with companies on the issue of executive pay. The mechanism of having an advisory vote sets up the basis for having a dialogue, and that is what companies and investors find useful

### **Growing Governance Trend**

Investor votes on pay reports are a growing governance trend in other markets. Britain, the Netherlands, Australia, and Sweden have each adopted measures allowing shareholders to vote on executive pay. In Britain, the growth rate of executive pay is declining, and communication between companies and shareholders over compensation has improved because of the rule.

### **Fewer Rewards for Failure**

A new Columbia and Harvard business school study on advisory votes in the UK found that Say on Pay produced markedly fewer rewards for failure.<sup>4</sup>

### **US CEOs Are Paid Twice Their European counterparts**

A 2005 Towers Perrin study of top executive pay in 26 major countries found that American executives make an average of twice as much as their French, German and British counterparts.<sup>5</sup>

### **Investors and Corporate Directors: the Current System Overpays**

- 75 percent of both directors and investors agree that the U.S. executive pay model has hurt corporate America's image.<sup>6</sup>
- 67 percent of directors believe that U.S. company boards are having trouble controlling the size of CEO compensation.<sup>7</sup>

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<sup>4</sup> Balachandran, Sudhakar, Fabrizio Ferri and David Maber, "Solving the Executive Compensation Problem through Shareholder Votes? Evidence from the U.K." 10/7/07/

<sup>5</sup> "Worldwide Total Remuneration Report 2005 – 2006," Towers Perrin.

<sup>6</sup> "Report on Directors' and Investors' Views on Executive Pay and Corporate Governance – 2008 Managing Executive Compensation in the Shareholders Interests," Watson Wyatt, 2008.

- 90 percent of institutional investors<sup>8</sup> and 61 percent of corporate directors think the current executive compensation system has overpaid executives.<sup>9</sup>
- 76 percent of investment professionals support giving shareholders a Say on Pay.<sup>10</sup>

### **Legislation**

Congress passed legislation in the House requiring an annual shareholder advisory vote on executive compensation at U.S. public companies. In the Senate, Senator Obama introduced the Shareholder Vote on Executive Compensation Act (S. 1181). Each of the major presidential candidates have indicated they will support legislation to require Say on Pay at US companies.

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<sup>7</sup> “What Directors Think – 2007 Annual Board of Directors Survey,” Corporate Board Member & PricewaterhouseCoopers.

<sup>8</sup> “Institutional Investors Dissatisfied with U.S. Executive Pay System, Watson Wyatt Study Finds,” Watson Wyatt, 12/13/05. 55 institutions managing \$800 billion in assets were surveyed.

<sup>9</sup> “Corporate Directors Give Executive Pay Model Mixed Reviews, Watson Wyatt Survey Finds,” Watson Wyatt, 6/20/06. 50 directors who serve on corporate boards were surveyed.

<sup>10</sup> Whitehouse, Kaja, “Investment Professionals: Give Holders a Say on Pay,” Wall Street Journal, 4/4/07.