## MEMORANDUM

June 26, 2008

**TO:** File No. S7-28-07

**FROM:** Sanjay Lamba
Office of Disclosure Regulation
Division of Investment Management

**RE:** Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies – Release No. IC-28064

On June 19, 2008, Andrew Donohue, Susan Nash, Jennifer McHugh, Tara Buckley, and Sanjay Lamba of the Division of Investment Management met with Robert Schifellite, Chuck Callan, and David Martin, representatives of Broadridge Financial Solutions, Inc. ("Broadridge"), to discuss the above-referenced proposal. In particular, the representatives of Broadridge discussed matters related to investor proxy voting participation, and how those participation rates may correlate with the proposed mutual fund summary prospectus delivery option.

During the meeting, representatives of Broadridge provided the attached copies of presentation materials that provide statistics on proxy voting participation and of media coverage regarding the voting impact of the recently adopted notice and access proxy rules.

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# Update on SEC's Notice & Access Rules
# Discussion of Summary Prospectus Delivery Option

June 19, 2008

# Overview

- Notice & Access rules went into effect on July 1, 2007. As of April 30, 2008:
  - 566 corporate issuers utilized Notice & Access for distribution of proxy information to beneficial shareholders; and,
  - 164 of these corporate issuers held their shareholder meetings and, therefore, voting data are available for 164 meetings.
- Voting:
  - Under Notice & Access, voting is approximately 75% lower for "retail" account holders, as a category. It has also decreased among "matched" account holders.
  - Voting for closed-end funds (a smaller sample size, not included in this analysis) is consistent with that of operating companies.
- Viewing Material on a Specified URL:
  - As of May 1, 2008, additional statistics are being captured.
  - Among other items, measurements include the percent of accounts that receive a Notice and go to the specified URL to view the material.

Detailed statistics can be found at www.broadridge.com

# "Matched" Account Participation
## *With* and *Without* Notice & Access

Participation has decreased among the same account holders.

| Size of Accounts (share range) | Number of Matched Accounts | Number Voting *Without* N&A | Number Voting *With* N&A | |
|---|---|---|---|---|
| < 1000 | 5,982,606 | 868,027 | 343,941 | (61)* |
| 1,000 - 4,999 | 648,656 | 143,527 | 55,402 | (61) |
| 5,000 - 9,999 | 61,266 | 14,685 | 7,244 | (51) |
| 10,000 - 49,999 | 40,862 | 10,301 | 5,605 | (46) |
| > 50,000 | 7,657 | 2,324 | 1,626 | (30) |
| Total | 6,741,047 | 1,038,864 | 413,818 | (60) |

**"Matched" accounts denotes same account number. Compares voting under Notice & Access to voting in the prior meeting without Notice & Access. Based on all 164 corporate shareholder meetings from July 1, 2007 - April 30, 2008.**

* Includes mailings of a 2nd Notice (with a ballot) and full packages as a result of 'consents' and issuer stratification.



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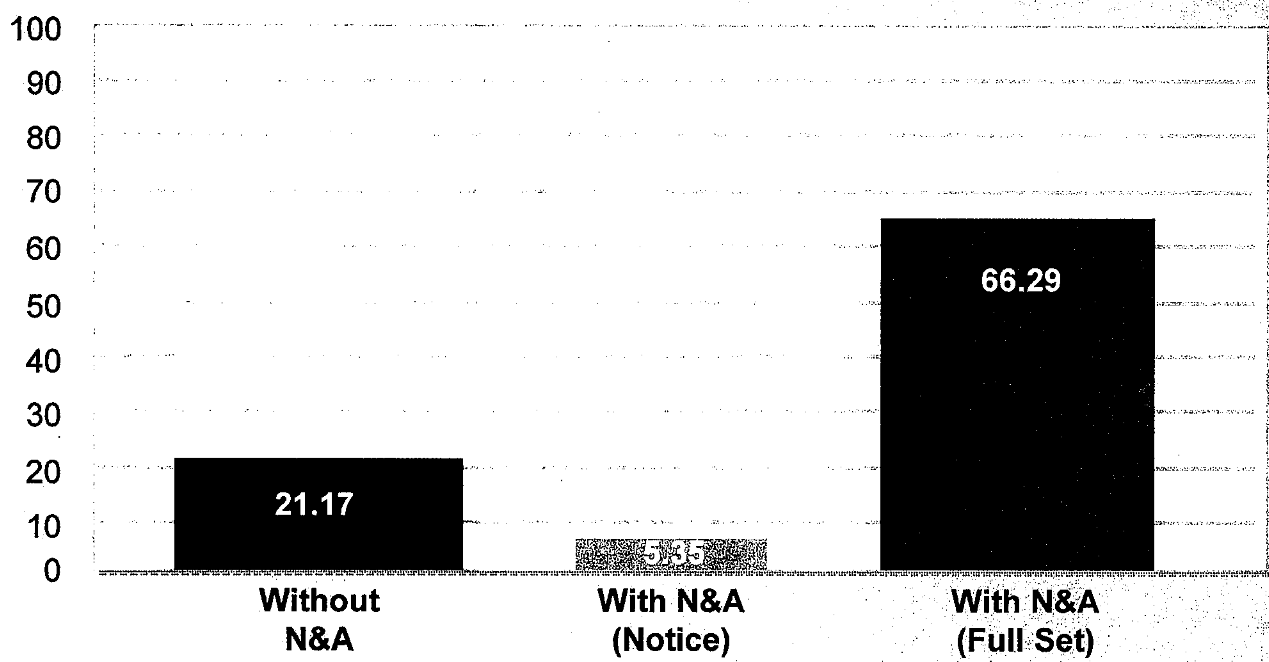
# All "Retail" Account Holder Participation *With* and *Without* Notice & Access

## Voting Response Rates by Distribution Type (%)

**"Without N&A" is for the prior meeting, "With N&A (Notice)" is for the current meeting. "With N&A (Full Set)" is for the current meeting, and it reflects prior consents on file and/or stratified delivery by issuers. Comparison of results for same issuers. Based on all 164 'Notice & Access' meetings as of April 30, 2008.**




**"Retail" excludes ProxyEdge institutional accounts, managed accounts, registered accounts, and email accounts. Email accounts do not see a change in delivery from prior years. The focus is on hard copy recipients.**



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# Notice & Action Default
# Account Holders Are Not Taking the Required Steps.

**Fewer than 1% are requesting materials.**

- **0.85% of the shareowners that received a Notice, then requested a full set of proxy materials (based on all 566 beneficial distributions as of April 30, 2008).**

**Approximately 3.7% went to the specified URL.**

- **0.4% of the accounts that received a Notice, and went to the specified URL, chose first to view the material (based on 6 issuers with mail dates between 5/1-26, 2008; includes 13,600 Notice recipients).**



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## Responses to Notice Mailing
## Few Accounts View the Disclosures on the Specified URL.

| Number of Notice Recipients | Number Visiting Specified URL and Selecting "Vote" | % | Number Visiting Specified URL and Selecting "Read Materials" | % |
|---|---|---|---|---|
| 13,600 | 505 | 3.7 | 58 | 0.4 |

Notes
- All 6 Notice & Access corporate issuers with mail dates between May 1 - 26, 2008
- None of this group has yet held its meeting.
- A total of 13,600 account holders received a Notice by mail.
- The "Vote" option presents the ballot with proposals and provides a link to view detailed information.
- The "Read Materials" option presents the materials and includes the option to vote.

# Sample Voting Response Rates
# Modes of Information Receipt and Voting

Investors that had proxy information in hand, were more likely to participate.

| Voting Methods / Receipt of Info | Total (%) | Paper Ballot (%) | Internet Ballot (%) | Other (%) |
|---|---|---|---|---|
| Full Set by Mail | 49.8 | 29.2 | 13.7 | 6.9 |
| Notice by Mail | 5.9 | 0.7 | 3.5 | 1.7 |
| Email | 14.3 | 0.1 | 13.4 | 0.8 |

Notes
- All 6 Notice & Access corporate issuers with mail dates between May 1 - 26, 2008. None of this group has yet held its meeting. Distributions ranged from 2,195 - 10,360 accounts/issuer.
- Total of 30,865 account holders: Full Set by Mail (1,751); Notice by Mail (13,600); Email (5,969); and ProxyEdge (9,545). ProxyEdge, a proprietary platform for institutional investors and financial advisors, is excluded.
- Response rates represent an average of averages, i.e., on average for a given issuer. Differences due to rounding.
- "Full Set by Mail" includes prior consents and issuer stratification of mailings.
- "Email" delivery provides essentially the same experience for an account holder, with or without Notice & Access, and is based on prior consent.
- "Other" includes telephone, and "Quick Vote."

# Media Coverage: Voting Impact of Notice and Access

| Headline | Date | Outlet | Page |
|---|---|---|---|
| How Well Do You Know... the Digital World | 6/09/2008 | Wall Street Journal | 1-4 |
| US firms love e-proxy savings, but at what cost? | 6/09/2008 | IR Web Report | 5-7 |
| E-Proxy Gets Off to Slow Start | 6/02/2008 | Directorship | 8 |
| E-proxies land with e-thud: Voting plunges | 6/02/2008 | Financial Week (Crain's) | 9-10 |
| E-Proxy: Retail Voting Still Low | 5/19/2008 | RiskMetrics Risk & Governance Blog | 11-13 |
| Companies Slow to Take Advantage of SEC's E-proxy Rule | 5/19/2008 | Securities Industry News | 14-15 |
| Survey of E-proxy Mailings by Fortune 100 Companies | 5/15/2008 | White & Case | 16-18 |
| E-proxy option dampens voting | 4/28/2008 | Honolulu Star-Bulletin | 19 |
| Retail Participation in Voting Plummets: Brand Voting in the Works | 4/25/2008 | accountability-central.com | 20 |
| Shareholder Voting Plummets... | 4/25/2008 | Graphic Arts Monthly | 21 |
| Shareholder voting declines as companies adopt Web ballots | 4/23/2008 | Associated Press (AP) | 22-23 |
| Shareholder Voting Declines as Companies Adopt Web Ballots | 4/23/2008 | Wall Street Journal | 24-26 |
| Shareholder Voting Declines as Companies Adopt Web Ballots | 4/22/2008 | MarketWatch.com | 27-29 |

THE WALL STREET JOURNAL. ONLINE

June 9, 2008

TECHNOLOGY

*Quiz*

# How Well Do You Know... the Digital World

By WILLIAM M. BULKELEY
*June 9, 2008; Page R14*

Technology is never just about technology. It's also about people, politics and markets. Do you know why Cubans recently flocked to certain retailers? Or what big change is emerging in the market for television sets? Take our quiz for a quick survey of your knowledge about the digital world in all its breadth.

**1) What newly available offering led to blocks-long lines outside of certain Havana retailers early in April?**

A. Discount iPods
B. Discount Cohiba cigars
C. Cellphone service
D. Microsoft Vista CDs

**ANSWER: C.** Ordinary citizens were allowed to sign up for cellphone contracts for the first time as the new president, Raul Castro, eased several restrictions on Cubans. The service, which costs $120 just to activate -- about half the average annual salary of a Cuban state employee -- permits international calls, including calls to and from the U.S., where many Cubans have relatives.

**2) What is leaky coaxial cable?**

A. Television cable that makes piracy easy
B. A long antenna to transmit radio signals in tunnels
C. Underwater cable that was chewed on by sharks
D. Defective wiring

**ANSWER: B.** Leaky coaxial cable has openings in the insulation that surrounds the central copper core, allowing radio waves to escape. That makes it possible to provide radio and cellphone coverage in previously unreachable areas like subway tunnels and mine shafts. Engineers are testing whether it can work with Wi-Fi wireless-communications technology so subway riders can surf the Internet while commuting.

**3) Why have some companies seen a steep decline in individuals casting proxy votes?**

A. Privacy fears related to bar-coded ballots
B. Disclosure that voting data were being sold to the junk-mail industry to defray costs
C. Shareholder depression over stock-market declines
D. Switch from paper ballots to online voting

**ANSWER: D.** Broadridge Financial Solutions Inc., which processes proxy votes, analyzed some 80 companies that held electronic votes between last July and February. On average, just 4.6% of individual investors voted, down from an already weak 19% the year before, when the surveyed companies sent out paper ballots.

Companies like to have shareholders read proxy materials and vote online because it cuts postage and printing costs. But managements relying on individual investors for support may find that electronic voting, by discouraging participation by individuals, increases the power of institutional investors.

**4) China blocked YouTube.com in March, when it showed graphic scenes of rioting in Tibet, and Pakistan blocked the site in February because of an anti-Islam video. Why was it blocked in Thailand last fall?**

A. A cooking video demeaned Pad Thai
B. A clip by animal-rights activists criticized elephant-training techniques
C. Gruesome footage of a kickboxing tournament
D. A video depicted women's feet above the king's head

**ANSWER: D.** In Thailand, feet are considered offensive, and Thailand blocked YouTube after it refused to remove the video, which was deemed insulting to the king.

**5) Companies based in Asia have long dominated the world-wide market for television sets. But in the fourth quarter of 2007, including the crucial Christmas season, a U.S. company sold nearly as many flat-panel LCD TVs as Samsung Electronics Co. or Sony Corp. What was the U.S. company?**

A. RCA
B. Zenith
C. Vizio
D. Sharp

**ANSWER: C.** Vizio Inc., a closely held company based in Irvine, Calif., captured 12% of the market, according to market researcher iSuppli Corp. There's still an Asian angle here, though. Vizio is 23%-owned by Taiwan's AmTran Technology Co., a contract manufacturer that supplies most of its television sets.

**6) Why did the University of Chicago Law School start blocking Internet access from**

**classrooms in March?**

A. Concern about cheating on exams
B. Fear that professors' lectures would be uploaded to video-sharing sites
C. Concern about sexually harassing emails
D. Fear that students were shoe shopping instead of listening to lectures

**ANSWER: D.** Law School Dean Saul Levmore sent an email to students and faculty in March saying Web access would be blocked in classrooms because Web-surfing law students weren't paying attention to lectures and were distracting classmates. He wrote that "observers have reported that one student will visit a gossip site or shop for shoes, and within twenty minutes an entire row is shoe shopping."

**7) Which PC maker's unit sales grew fastest in the U.S. in the first quarter?**

A. Apple
B. Hewlett-Packard
C. Dell

**ANSWER: A.** Apple Inc.'s shipments rose 32% to just over one million units, accounting for 6.6% of the U.S. market, according to research firm Gartner Inc. Unit sales by Dell Inc., No. 1 in the U.S., rose 16%, for a 31% market share, while Hewlett-Packard Co.'s sales were flat, giving it a 25% share. Overall, the U.S. market grew only 3%.

**8) What's a Rock Phish?**

A. Groupie of the band Phish
B. Cybercrime that tempts victims by promising free song downloads
C. European cybercrime consortium
D. New videogame that combines music playing with fly tying

**ANSWER: C.** According to the RSA Security division of EMC Corp., Rock Phish is a four-year-old European group that specializes in creating "phishing" scams, in which unsuspecting consumers receive emails that appear to come from well-known entities such as financial firms, retailers or government agencies. The emails often direct computer users to apparently legitimate Web sites that are actually controlled by the criminals. There they are directed to provide private information to verify their accounts that is then sold to identify-fraud criminals. RSA says some new phishing scams can steal passwords from victims' computers even if the computer owner merely visits the fake Web site without providing any data.

**9) What new feature is increasingly common on digital cameras to help amateur photographers take better snapshots?**

A. Smile detection
B. Blink detection

C. Camera-owner detection
D. All of the above

**ANSWER: D.** Smile-detection settings can prevent a picture from being taken until all the people in the frame are smiling. Blink detection can warn the photographer to wait because the subject blinked, or to snap again if the blink happened as the shutter clicked. As an alternative to setting a self-timer, owner detection allows a photographer to tell the camera not to snap until he or she is posed in the frame.

**10) How is the Japanese government trying to discourage vending-machine sales of cigarettes to underage smokers?**

A. Issuing smart cards to adult smokers and requiring card readers on all machines
B. Installing age-verification information in cellphones that can be transmitted to vending machines
C. Using biometrics to measure finger size
D. Limiting machine placements to bars and racetracks

**ANSWER: A.** Under a World Health Organization program to prevent smoking by minors, Japan was required to crack down on the nearly half-million unsupervised vending machines that dispense most cigarettes in the country. Convenience-store owners are cheering, because less than 10% of smokers had applied for the cards by mid-April, and most are expected to shift their purchases to stores, where cards aren't required.

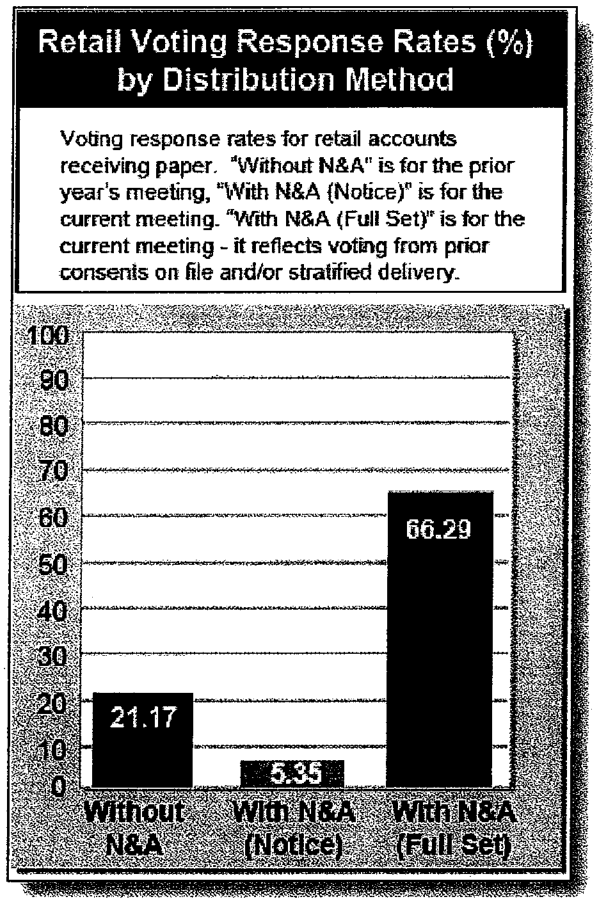
# US firms love e-proxy savings, but at what cost?

By Dominic Jones | June 9, 2008 @ 6:00 am

DESPITE the risk that they might be reaping short-term gains while laying the foundation for long-term pain, 566 US companies used notice-only e-proxy mailings for their shareholder meetings by the end of April.

According to figures compiled by **Broadridge Financial Solutions Inc.**, companies have saved about **$132 million** through lower print and mailing costs.

Unfortunately, that has come at the expense of retail investor engagement in the corporate governance of firms. Based on 164 completed meetings, Broadridge reports a **75% drop in participation among retail shareholders** who received only a notice asking them to go online to view their materials or order print materials to be mailed to them.

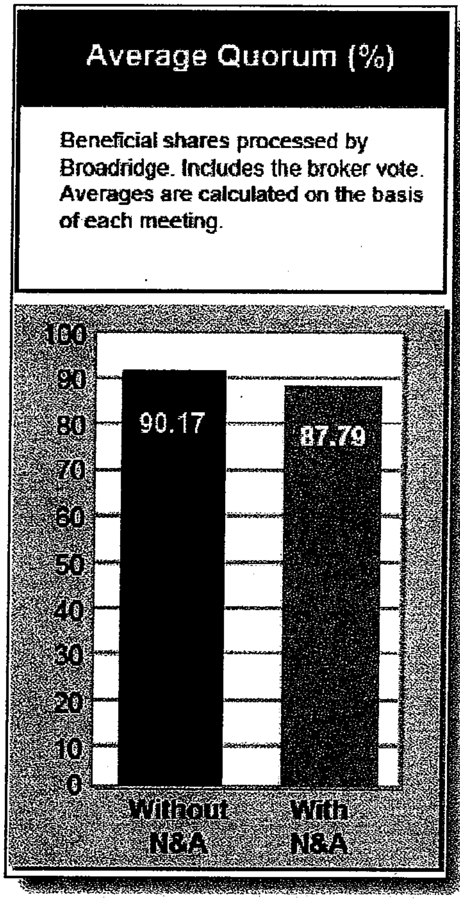



Interestingly, participation jumps dramatically when retail shareholders receive a full set of printed meeting materials in the mail. More than **66%** of retail investors who received full-set delivery voted in companies' meetings. Broadridge reports that companies are **increasingly stratifying their distributions**, often sending their smallest shareholders notices only while larger holders receive a full set of materials.

Meanwhile, the lack of participation by retail shareholders is unlikely to worry companies in the short-term. The **average quorum** at shareholder meetings is still high, **88%** compared to 90% last year.

However, the figures include the much-criticized **broker vote**, which are uninstructed votes cast by brokerage firms on behalf of their clients on "routine" matters, including director elections. Since 2006, the US Securities and Exchange Commission (SEC) has been sitting on a proposal from the New York Stock Exchange to eliminate the broker vote in director elections.

If the SEC agrees to scrap the broker vote, it could impact the ability of some firms to achieve a quorum and put the re-election of directors at many more companies in doubt, especially if they have adopted majority voting standards for board elections.




But even if the SEC does nothing, the lack of engagement by retail investors in the shareholder meeting process is likely to lead to disaffection in the longer term. That could put companies at **even greater risk if they are targeted by activist institutional investors** since the lack of retail participation magnifies the activists' impact.

There is an additional concern for **consumer-related businesses**, which often can count on retail shareholders to be some of the best ambassadors and champions for their products. However, if these shareholders are not being engaged to keep informed about the companies whose shares they own, businesses could **lose this valuable constituency**.

## Chasing short-term glory at expense of corporate reputation

In an age when technology enables virtually anyone to share their opinions with others almost instantly, **companies cannot afford to alienate people who have such a strong vested interest in their success** as do shareholders.

However, this appears to be exactly what many companies are doing. Individual corporate secretaries and IROs are chasing the glory of short-term savings **without due consideration of the long-term impacts** in terms of corporate reputation, word-of-mouth marketing, community support, and *stakeholder engagement.*

Few companies that have used voluntary e-proxy to date have made an effort to provide the online versions of their proxy statements and annual reports in usable and engaging formats. As we reported last week, **almost 90% of companies chose formats that do not live up to the spirit of the SEC's rules**.

Electronic delivery has **many benefits**, but companies must be concerned about a lack of main street participation and take steps to increase retail engagement going forward. This is best done by investing in their web-based communications to **create more engaging destinations** for shareholders — not just annually around their shareholder meetings, but throughout the year.

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Directorship

June 02, 2008

# E-Proxy Gets Off to Slow Start

**By Staff Writer**

Now that the first proxy season under the new "e-proxy rule" is over, an analysis shows that voting by individual shareholders dropped at companies using the new rule.

The limited company participation in the new program identified by a study by the law firm White & Case indicates the anticipated savings may not materialize anytime soon.

"Voter participation dropped like a stone, suggesting fewer people may be paying attention and our markets aren't working as well as they should," Georgetown University finance professor James Angel said in an interview with *Financial Week*. "The law of unintended consequences may be at work here."

Under the rules that went into effect last July, companies have the option of notifying investors by mail that proxy materials are available online. Investors are told that they can request a mailing.

The so-called "notice and access" program is part of a broader effort by SEC chairman Christopher Cox to get companies to expand their use of the Internet to provide information to investors.

Of the 78 *Fortune* 100 companies whose proxies were examined by New York-based White & Case, only 19 chose to send investors a postcard with notice of Web availability of proxy materials rather than mailing the materials.

"A significant majority of the companies decided to wait and see how the rule was implemented," Colin Diamond, the White & Case partner who conducted the firm's study, told *FW*.

The May 15 study included proxy solicitations between Jan. 1 and May 8. At companies that gave investors notice of Web-based materials, a far smaller percentage of individual investors voted this year than last, according to Broadridge Financial Solutions.

Only 16% of individual investors voted this year after receiving a postcard that referred them to the Internet for materials and instructions on how to vote by e-mail or phone. That compares with 34% who voted last year after receiving a bulk mailing that included a paper ballot, Broadridge's April 30 data show.

Financial Week
The Home Page of Corporate Finance

# E-proxies land with e-thud: Voting plunges

**By Neil Roland**
June 2, 2008

The Securities and Exchange Commission announced with some fanfare last year its voluntary plan to expand companies' and investors' use of the Internet to display proxy materials and vote on directors and other corporate issues.

In a speech after the so-called e-proxy rule was approved, SEC Commissioner Paul Atkins said it would advance shareholder democracy by reducing mailing and printing costs for investor groups that couldn't otherwise afford solicitations.

The commission estimated that the rule would save companies as much as $241 million a year by using the Internet more and paper less. Even environmental groups weighed in, predicting the regulation could save 800,000 trees from being cut down each year.

Now that the first proxy season under the rule is over, the prognosis isn't nearly as rosy, including the outlook for the trees. Instead of more shareholder democracy, there may be less, as voting by individual shareholders dropped at companies using the new rule, recent data show. And the limited company participation in the new program identified by a study by the law firm White & Case indicates the anticipated savings may not materialize anytime soon.

"Voter participation dropped like a stone, suggesting fewer people may be paying attention and our markets aren't working as well as they should," Georgetown University finance professor James Angel said in an interview. "The law of unintended consequences may be at work here."

Under the rules that went into effect last July, companies have the option of notifying investors by mail that proxy materials are available online. Investors are to be told that they can request a bulk mailing.

The so-called "notice and access" program is part of a broader effort by SEC chairman Christopher Cox to get companies to expand their use of the Internet to provide information to investors.

Earlier this month, for example, the agency issued a proposed rule that would require companies to tag data on financial reports using XBRL to make it easier for investors to compare the information with that of other companies. The SEC also created a legal exemption last year to encourage companies to set up electronic shareholder forums to increase communications between management and investors.

Of the 78 Fortune 100 companies whose proxies were examined by New York-based White & Case, only 19 chose to send investors a postcard with notice of Web availability of proxy materials rather than mailing the materials.

"A significant majority of the companies decided to wait and see how the rule was implemented," Colin Diamond, the White & Case partner who conducted the firm's study, said in an interview. The May 15 study included proxy solicitations between Jan. 1 and May 8.

At companies that gave investors notice of Web-based materials, a far smaller percentage of individual investors voted this year than last, according to Broadridge Financial Solutions. Only 16% of individual investors voted this year after receiving a postcard that referred them to the Internet for materials and instructions on how to vote by e-mail or phone. That compares with 34% who voted last year after receiving a bulk mailing that included a paper ballot, Broadridge's April 30 data show.

"If you're a shareholder and you get a big package in the mail, it gets your attention and the ballot is right there," Mr. Angel said. "If you get just a postcard, it's easy for it to get lost and it requires more active work to go to the Web and figure out how to vote."

Among the companies that used the "notice and access" program were Chevron, Halliburton, Hewlett-Packard, Honeywell International, Intel and Wells Fargo, according to White & Case.

Many companies targeted the postcards at institutional shareholders who were likely to use the Internet and to individuals with fewer than 1,000 shares who executives figured weren't going to vote anyway, said Geoff Loftus, a spokesman for the Society of Corporate Secretaries and Governance Professionals, which represents mostly company lawyers. That approach would maximize company savings, he said.

At the same time, these companies sent bulk mailings to individuals who owned more than 1,000 shares, on the premise that they were more likely to vote if they got proxy materials in the mail, Mr. Loftus said.

"We have been concerned from the beginning that the SEC rule would disenfranchise voters, and the new data seems to confirm our fears," said Heather Slavkin, a lawyer with the AFL-CIO's investment office.

The SEC staff has been tasked with monitoring the effectiveness of the new rule.

"We are aware of the drop in the average percentage of retail shares voted at companies relying on the "notice only' option," SEC lawyer Elizabeth Murphy said in an e-mailed statement. "We will certainly focus on this issue."

Monday, May 19, 2008

## E-Proxy: Retail Voting Still Low

*Submitted by: L. Reed Walton, Publications*

U.S. companies using online proxies and mailed notices--also known as "notice and access"--continue to see sharp declines in voting by individual investors, but some shareholder advocates are re-examining their previously pessimistic views on e-proxy.

Since July, when firms could begin electronic distribution of their proxy materials, 92 companies have held annual meetings, according to Broadridge Financial, which processes proxy votes for most of the issuers that have adopted notice and access. At those 92 firms, retail shareholder participation dropped more than 75 percent from the previous year. Only 4.5 percent of individual investors voted at e-proxy firms in late 2007 and early 2008, down from 19.2 percent participation in late 2006 and early 2007, according to Broadridge.

According the latest statistics from Broadridge, 283 public companies adopted electronic proxy material delivery as of March 31. In July 2007, the Securities and Exchange Commission adopted a rule allowing public firms an alternative to sending full packets of proxy materials to each shareholder--the "notice and access" model--whereby issuers would mail a notice to shareholders telling them that proxy materials are available via a Web site other than the SEC's EDGAR site. By January, large companies were required to post proxy materials online, though they could still choose to send full packets of voting materials in advance of their annual meetings. Small companies will have until 2009 to post proxy information online.

The possibility of a drop in retail shareholder participation was raised by many of the investors who commented on the SEC's notice and access rule. During the first comment period in 2006, shareholders Nick and Emil Rossi warned in a letter to the SEC that electronic proxy delivery "is another attempt to disenfranchise small individual shareholders." A survey conducted by Forrester Research--on behalf of Broadridge and included in the proxy processing company's comments to the SEC--indicated that 38 percent of shareholders who vote would be less likely to look at proxy materials online and less likely to vote under a notice and access model.

At the time, investor groups expressed concern that older or less technologically savvy shareholders would be reluctant to use the computer technology required to view e-proxies. The Association of BellTel Retirees wrote in its letter that it was "premature" of the SEC to expect that retirees and other shareholders over the age of 65 are comfortable enough with the Internet to access corporate proxy disclosures.

The initial decline in retail voting appears to bear out these warnings. But the dip may be temporary, some advocates say. Richard Clayton, research director for the CtW Investment Group, told Risk & Governance Weekly that a number of factors could be contributing to the drop in retail participation--including frustration with a flagging economy and a declining real estate market. Trouble using the new online proxy voting applications could contribute to a temporary drop in participation, as well. "With a lot of online services, there tends to be a learning curve," Clayton said.

Richard Ferlauto, director of pension and benefit policy for the American Federation of State, County, and Municipal Employees, agreed. Ferlauto told R&GW that it would probably take at least five years for some retail shareholders to become familiar with the technology, have the broadband network access necessary to download large files, and cope with the hassle and expense of printing out long proxy forms. "These are significant barriers that will be overcome with time," Ferlauto said.

Ferlauto also noted that notice and access may have dampened support levels for "say and pay" and other shareholder proposals this year. However, CtW's Richard Clayton told R&GW that because it's difficult to measure how many retail investors are voting for shareholder resolutions, it's too early to tell whether the e-proxy rules are having a real effect on proposal support.

A number of early-adopter companies reported shareholder complaints over the mailed notice cards. A few shareholders wrote their votes on the notice cards and sent those back to the company, Gail Smith, director of corporate development for pharmaceutical firm Pharmos, said in a January interview on e-proxies with Broadridge.

Dominic Jones, editor of the IR Web Report, wrote about problems he had accessing online proxy materials for Applied Micro Circuits in July of last year. Mistyping the Web address for Broadridge's proxy voting site, Investor E-Connect, brought up a "spam" advertising site he suspected preyed on people who accidentally visited the wrong Web page, Jones wrote. Other investors complained about the mailed notice that Broadridge used to alert shareholders to online availability. The notice form was too small and not very "user-friendly," Helen Kaminski, assistant general counsel for food company Sara Lee told Broadridge.

Broadridge has no plans now to redesign its mailed notice, Chuck Callan, the company's senior vice president of regulatory affairs, told Risk & Governance Weekly. This is partly because the SEC requires that certain text be printed on the notice of online proxy material availability. "You get the notice, but it's not in and of itself a ballot," Callan said.

He contends that the new, unfamiliar proxy delivery method is causing retail shareholder participation to drop. According to Broadridge statistics, in cases in which e-proxy companies sent certain shareholders a "full set" of proxy materials, and among the 0.5 percent of shareholders who "opted in" for full paper copies, voting was much higher. For retail shareholders receiving the full set of proxy materials this year, the voting rate was approximately 66.5 percent. "The basic conclusion is that opt-in rates are low, opt-out rates are low, and if there is a change in the default, people tend to take no action," Callan told R&GW.

Two new initiatives may also help individual investors become more informed about governance matters and vote their shares. A new Web site, ProxyDemocracy.org allows shareholders to see how institutional investors plan to vote at upcoming meetings. The California Public Employees' Retirement System, Calvert Funds, Christian Brothers Investment Services, and Domini Social Investments are among the investors that have signed up to make their vote recommendations available on the site. Investors can also assign their voting rights to a third party, such as an environmental or social group, through the Investor Suffrage Movement. The proxy exchange, currently in trial phase, will help members transfer ballot rights to other members online.

**Quorum Issues and Broker Votes**

One of the major concerns of companies at the outset of e-proxy voting coincides with a pending decision by the SEC. The New York Stock Exchange (NYSE) has proposed to bar companies from counting "broker votes"--those shares where clients haven't given voting instructions--in all board elections. Uncontested director elections are now considered "routine" ballot items by the exchange, but the NYSE is seeking SEC approval to classify board elections as "non-routine," like shareholder proposals.

Some companies balked at the idea of eliminating the votes, arguing that they may not be able to reach quorum--the requisite number of shareholders present in order to hold an annual meeting. Uninstructed shares account for a significant percentage of shares in U.S. companies. A 2005 presentation by the National Investor Relations Institute (NIRI) showed that as much as 85 percent of NYSE-listed firms would have been working to reach quorum in the nine days before their annual meeting and 23 percent of listed firms would not have attained quorum without broker votes in 2004. The latest statistics from Broadridge on e-proxy voting show that average quorum has slipped about 4 percentage points among those companies adopting notice and access.

Clayton of CtW asserts, though, that the quorum argument is beginning to lose credibility. "It's a small and probably shrinking share of the market where [quorum is] a concern, so there's probably a way around that," Clayton told R&GW. "It wouldn't be hard to put in an exemption for smaller companies."

Some investor groups also consider broker votes a "thumb on the scale" for management-sponsored director nominees. Most brokers vote uninstructed shares with a company's management recommendation, which can undermine a "vote no" campaign by investors. A few directors this year, including James Stever and Charles Lillis at Washington Mutual, would have failed to win re-election if broker votes had not been counted, labor investors say. (For more on this issue, see the "In Brief" section of the May 2 edition of Risk & Governance Weekly.)

The AFL-CIO wrote in its comment letter on notice and access in 2006 that issuers should be reaching out to shareholders rather than relying on broker votes to help them achieve quorum. Daniel Pedrotty, director of the labor federation's office of investment, told R&GW that the need for change on the broker vote issue "is so compelling" that he believes that quorum requirements do not override the issue. The Council of Institutional Investors, a member organization of public and labor pension funds, advocates using broker votes to reach quorum, but not counting them for or against any ballot items at all, CII Deputy Director Amy Borrus told R&GW.

The SEC has so far declined to move on the issue and appears unlikely to do so until three commissioner nominees take office. Still, investor groups like the CII continue to pressure the commission to address the broker vote issue. In an April 17 letter to SEC Chairman Christopher Cox, CII Executive Director Ann Yerger wrote that the organization was "disappointed that this important investor-friendly reform has languished" at the commission.

**Benefits to Companies**

Despite caution on the investor side, there is little doubt that companies adopting the notice and access model have seen significant financial benefits. Broadridge's Callan estimates a savings of approximately $75 million in printing costs among the 283 companies using notice and access. During a January interview with Broadridge, representatives from Pharmos and Sara Lee testified to a collective savings of about $398,000 after going predominantly online last year (shareholders may still elect to receive full paper copies of a firm's proxy materials.)

If U.S. companies use electronic distribution on a wide scale, it can save up to 800,000 trees per year, and prevent hundreds of thousands of tons of paper from being dumped into landfills, BNet.com's Peter Galuszka reported on the site's "Corner Office" feature on April 23. Environmental responsibility is one of the reasons that Molson Coors Brewing chose to adopt notice and access this year, company spokesman Paul de la Plante told R&GW. "It shows good leadership. We wanted to be in the first handful of companies that did this," de la Plante said.

He also said that only five people called the company with questions about the mailed notice or the online proxy voting process, and that they have had no complaints so far. Data on retail investor voting at Molson Coors will be available shortly after the company holds its annual meeting on May 15.

**SEC Votes to Mandate XBRL**

In other news this week, the SEC voted May 14 to propose a new rule to require large companies to start incorporating the XBRL computer language in their quarterly and annual reports. The data-tagging technology would allow investors to more easily access financial data and compare results across companies.

"It will replace the current time-consuming methods involved with retrieving corporate-shareholder information and put that information at the fingertips of every investor," SEC Chairman Christopher Cox said in a speech on the proposed rule.

Under the draft rule, large companies (with more than $5 billion in publicly traded shares worldwide) would have to start including XBRL tags in their early 2009 filings. Public comments are due within 60 days after the proposal is published in the Federal Register.

http://blog.riskmetrics.com/2008/05/eproxy_retail_voting_still_low.html

securitiesindustry.com

## Companies Slow to Take Advantage of SEC's E-proxy Rule

May 19, 2008
*By Chris Kentouris*

Though the Securities and Exchange Commission has made it easier for public companies to provide proxy materials via the Internet, many issuers are not taking advantage, according to a report from New York-based law firm White & Case.

Under the SEC's new rule, effective Jan. 1, companies can mail shareholders a notice that their proxy materials--a proxy statement, annual report and proxy card--are available online, rather than mailing the full materials. "We conducted the study to assist our clients in deciding whether they should adopt the new method and how to best implement it," said White & Case partner Colin Diamond. The firm reviewed the 2007 proxy statements of the 78 Fortune 100 companies that conducted their annual meetings between Jan. 1 and May 8.

According to the study, sent to the firm's clients on May 16, only 19 companies decided to provide their shareholders with a notice that proxy materials were available online: Allstate Corp., American Express, AmerisourceBergen Corp., Caterpillar, Chevron Corp., Hartford Financial Services Group, Halliburton Co., Hewlett-Packard Co., Honeywell International, Intel Corp., Lowe's Companies, Marathon Oil Corp., United Parcel Service, Prudential Financial, Sysco Corp., Wachovia Corp., Wellpoint, Wells Fargo & Co. and Valero Energy Corp.

Previously, investors who wanted electronic delivery of corporate documents had to give explicit permission to either the issuer or their bank or brokerage firm. Under the new notice-and-access method, investors that want to receive a paper copy of the proxy materials must request them.

Large accelerated filers--generally companies with more than $700 million in market capitalization held by non-affiliates--must make proxy materials available online even if they continue to mail the full documents. The requirement will apply to all companies making proxy solicitations after Jan. 1, 2009.

According to White & Case, the companies that provided the e-proxy notices took differing approaches. Hewlett-Packard and Marathon Oil said they mailed full proxy materials to all non-U.S. shareholders, while Caterpillar and Wells Fargo provided an e-proxy notice to a "majority" of shareholders. Wells Fargo said it was testing the approach to determine whether to send shareholders only e-proxy notices for future meetings. "Other companies may have also adopted a test-the-water approach without expressly disclosing it," said White & Case.

Prudential Financial said it was providing a full set of proxy materials to shareholders who voted in 2007 and a notice to all others.

While the SEC has said the rule's objective is to capitalize on the wide availability of the Internet to reduce corporations' mailing and printing costs, the modest interest from many of the largest companies indicates concerns about the possibility of low shareholder turnout, said Diamond.

A survey issued last month by Broadridge Financial Solutions, the largest distributor of proxy mailings in the U.S., appears to support such beliefs. According to the study of 92 companies who held their annual meetings before March 31, 13.9 percent of retail shareholders who were issued an e-proxy notice voted, compared to 31.4 percent the prior year, when they received full proxy materials. Broadridge said that only 0.45 percent of shareholders who received the notices during that period requested the full materials.

Diamond noted that companies might be encouraged to adopt the e-proxy notification method if the number of retail shareholders voting using electronic means increases. Companies could also opt to use a more targeted approach to the notice-only method, mailing full proxy materials only to shareholders who voted in the prior year or years.

The SEC could increase adoption, said Diamond, by permitting the notice to be accompanied by a proxy card or other means of voting, rather than requiring a ten-day delay. "It is likely that only a small number of retail shareholders read the proxy statement in detail, and those wishing to do so are able to download it from the Internet before voting," said Diamond.

http://www.securitiesindustry.com/news/22424-1.html?source_dept=asset_servicing

WHITE & CASE

**Survey of E-proxy Mailings by *Fortune 100* Companies**
May 15, 2008
Colin J. Diamond

DOWNLOAD PDF: Survey of E-proxy Mailings by *Fortune 100* Companies

The 2008 annual proxy season is the first for which the SEC's new "e-proxy" rules are effective. Under these rules, companies that mailed proxy statements after January 1, 2008, had the option of mailing shareholders a notice that their proxy materials were available on an Internet website rather than mailing full proxy materials to those shareholders. Large accelerated filers — generally companies with more than US$700 million market capitalization held by non-affiliates — were also required to make proxy materials available on an Internet website, even if they mailed full proxy materials to their shareholders. This requirement will become effective for proxy solicitations by all other filers after January 1, 2009. In addition to offering shareholders a convenient way to access proxy materials, the new rules were intended to enable issuers to lower printing and mailing expenses, and reduce paper requirements.

An initial survey by White & Case LLP indicates that only 19 of the 78 *Fortune 100* companies who commenced their annual proxy solicitation process between January 1, 2008, the date of effectiveness of the new e-proxy rules, and May 8, 2008, elected to provide shareholders with notice of website availability of proxy materials rather than mailing full proxy materials.[1] There is no discernible industry grouping or pattern among these companies.

Among the 19 *Fortune 100* companies that provided an e-proxy notice of availability, there were the following variations in the approach:

- A number of companies stated that they were providing e-proxy notices to "many" shareholders. Two of these companies clarified further that they were mailing full proxy materials to non-US stockholders and one company clarified that it was mailing full proxy materials to participants in its 401(k) plan (see below for further discussion on this point).
- Two companies stated that they were providing an e-proxy notice to a majority of their stockholders. One company stated that it adopted this approach to help it decide whether to send only an e-proxy notice to all stockholders for future meetings. Other companies may also have adopted a "test the water" approach without expressly disclosing it.
- One company stated that it was providing a full set of proxy materials to shareholders who voted in 2007 and an e-proxy notice to all other shareholders.

In a recent survey, Broadridge Financial Solutions, Inc. (formerly known as ADP) reported that out of 92 companies that had held their annual meetings before March 31, 2008, an average of 13.9 percent of retail shareholders who received an e-proxy notice of availability voted. This compares to an average of 31.4 percent of retail shareholders for the same companies who received full proxy materials in the prior year. According to Broadridge, through March 31, 2008, only 0.45 percent of shareholders who received an e-proxy notice of availability requested full proxy materials.

The initial results of the 2008 annual proxy season are instructive. First, as expected, only a minority of companies adopted the notice approach while a majority of companies waited to see the impact. Second, it appears as if the
notice approach had a meaningful negative impact on the responsiveness of retail shareholders. Further surveying needs to be conducted in order to draw definitive conclusions, however, the requirement that the

notice not be accompanied by a proxy card or other means of voting seems to have resulted in many retail shareholders being unwilling to take the extra steps necessary to vote after receiving the notice.

This year's results may raise a question as to whether the financial and environmental benefits of the notice-only method are outweighed by the resulting decrease in retail shareholder voting. Some possible responses are as follows:

- Companies may continue to allow, and even encourage, shareholders to elect voluntarily to receive only electronic versions of proxy materials. This may be sufficient for some companies and it is likely that the number of shareholders who self-select this method will increase over time.
- Companies may elect to mail or e-mail a proxy card and instructions regarding other means of voting to shareholders more than ten days after mailing the notice. This is permitted by the rules and may result in increased retail shareholder participation (although an additional paper mailing will significantly impact expenses).
- Finally, companies may use the notice-only method on a more targeted basis, for example, mailing full proxy materials only to shareholders who voted in the prior year or years by any particular method.

Although the rules are still in an early stage of implementation, one possible change that may cause the notice method to become more widespread would be to permit the notice to be accompanied initially by a proxy card or other means of voting rather than requiring a ten-day delay. It is likely that only a small minority of retail shareholders read the proxy statement in detail, and those wishing to do so are able to download it from the Internet before voting. Case law interpreting Rule 14a-9 under the Securities Exchange Act of 1934 — the rule imposing liability for material misstatements or omissions in proxy materials — has held with almost complete uniformity that a plaintiff need not demonstrate that he or she actually relied on (or even read) a proxy statement. Therefore, it may not be necessary to require such a strict separation of the notice from a means of voting. A change that permits the delivery of a proxy card or information regarding other means of voting may be one way to maintain a high level of retail shareholder voting while still using the notice-only method of delivery.

**Summary of E-proxy Rules**
The SEC's e-proxy rules provide companies conducting a proxy solicitation after January 1, 2008 with the following two options:

- *Notice and access option*. Under this option, the company sends a notice to shareholders at least 40 days before the shareholders meeting informing them of the availability of proxy materials on an Internet website. The notice must contain certain information specified by the SEC and comply with form requirements. The notice may not contain additional information or be accompanied by other materials. On or before the date that the notice is first sent, the company must post a full set of proxy materials on an Internet website (other than the SEC's website) that is freely accessible to shareholders and also provide a means to vote (which can be electronic, by telephone or by offering the ability to print and mail a proxy card). The company may not mail an actual proxy card to shareholders until ten or more calendar days after the date that it sends the notice to shareholders unless the ~~proxy~~ card is accompanied by a full proxy materials. The SEC's "householding" rules, which permit one set of proxy solicitation materials to be sent to each household in which more than one shareholder lives also apply to the notice. Finally, the company is required to send full proxy materials to any shareholder who requests an electronic or paper copy of such materials, and must allow shareholders to make an election to receive electronic or paper copies of future proxy materials.
- *Full-set delivery option*. Under this option, the company posts a full set of proxy materials on an Internet website (other than the SEC's website) and continues to deliver the full setof proxy materials to shareholders. Unlike the notice and access option, however, it is not necessary for the company to provide a means to vote on the Internet website (becauseindividuals will have received an actual proxy card) and the 40-day advance notice

requirement does not apply. The company is still required to provide a notice to shareholdersregarding the website availability of the materials and certain other specified information; however, a separate notice does not need to be provided if the required information is included in the full proxy materials. This option does not substantially modify existing practices other than the requirement that a full set of proxy materials be made available on an Internet website.

The full-set delivery option is mandatory for large accelerated filers that mailed proxy materials after January 1, 2008 and will become mandatory for all other filers that mail proxy materials after January 1, 2009. The notice and access option can be used by any issuer after January 1, 2008. The notice and access option may not be used in connection with business combination transactions.

The two options described above are not mutually exclusive and companies can use the notice-only option for some shareholders and the full-set delivery option for others. As described above, this is the approach that some companies have adopted. In addition, it should be noted that the notice and access option will likely not satisfy the US Department of Labor's (DOL) requirements for electronic delivery of materials to participants in ERISA-covered defined contribution plans, such as 401(k) plans and employee stock ownership plans. These include delivery of investment-related information required to be provided to plan participants in the case of plan fiduciaries seeking to be covered by the fiduciary protection of Section 404(c) of ERISA. Unless these DOL requirements for electronic disclosure are satisfied, full proxy materials should be mailed to such participants entitled to receive them.

Star Bulletin

Vol. 13, Issue 119 - Monday, April 28, 2008
By Staff Writer

NATION

## E-proxy option dampens voting

When the Securities and Exchange Commission decided to allow companies to collect shareholder votes online, its goal was to help cut printing costs. But something else fell, too: the already lethargic voter participation of individual investors.

Some 80 companies that have switched to the electronic model, dubbed e-proxy, have held annual meetings since July, when the rule was adopted, through February.

On average, just 4.6 percent of individual shareholders voted on company matters using e-proxy, a sharp decline from the 19.2 percent who voted in the year-earlier period, when the companies sent out traditional paper ballots, according to Broadridge Financial Solutions Inc., which processes proxy votes.

A variety of reasons could account for the decline in voter participation. It could be a temporary phenomenon as shareholders make the adjustment. Several companies say investors were confused by the mailed notice explaining the electronic procedures. Other companies say older people and those living in remote areas are less likely to go online and prefer to receive the documents in the mail.

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# Retail Participation in Voting Plummets: Brand Voting in the Works

April 25, 2008

BY: JIM RICHIE

WSJ, using data from Broadridge Financial Solutions, reports that 80 companies that have switched to e-proxy. Only 4.6% of individual shareholders voted under e-proxy, a sharp decline from the 19.2% when the companies sent out traditional paper ballots.

"The decline in the participation of individual shareholders could give larger institutions and corporate activists greater sway on company matters." "Companies may be less willing to use e-proxy when there are contested issues, including shareholder proposals that the company opposes. That's because individual investors, when they vote, usually vote on the side of management." (Shareholder Voting Declines as Companies Adopt Web Ballots, 4/23/08)

Another likely result is that stockowners will feel less and less like owners and more like people simply betting at the racetrack or casino. Four approaches on the horizon all point in the direction of voting by "brand."

Proxy Democracy is working to ease proxy research and is now in beta testing. What is up on the site now is simply an example of the coming database. However, those interested can ask to participate in beta testing. Eventually, clients will be able to input their portfolio and get an email whenever a fund announces their position. The site will also feature mutual fund vote analysis and other tools.

Second, there is also the Investor Suffrage Movement, see Proxy Transfer Trials Underway below. At buildout, that system envisions a proxy exchange facilitating the ability of shareowners to assign proxy rights to others, whom they trust, to vote on their behalf.

Similar, but simpler, would be if funds or other organizations simply step forward and indicate a willingness to accept proxy assignments of whole portfolios from retail shareowners who trust their "brand." The question at this point is, "who will go first?" Setting up such systems requires no changes in law, should be very inexpensive, and promises to substantially strengthen the clout of
CalPERS, Domini, Calvert, the National Rifle Association, or whatever organization goes first. If interested in this approach, please contact James McRitchie, Publisher of CorpGov.net.

A fourth option, which at this point seems further down the road, would be for shareowners to collectively hire proxy monitoring firms. With "free rider" issues resolved and costs spread to all shareowners in a given company, research could be much more thorough than what critics now attribute to current vendors as a check-box approach. Votermedia.org laid important groundwork through what once was the Corporate Monitoring Project. While they are now beta-testing conceptual approaches with student elections at universities, I hope they will return to apply their valuable findings and experience to corporate elections.

## Shareholder Voting Plummets...

***-- Graphic Arts Online, 4/24/2008 4:52:00 PM***

Voter participation plummeted when publicly traded firms switched from mail-in to online systems. The Securities and Exchange Commission allowed public firms to cut print and mailing costs by allowing shareholders to view e-proxy statements and vote online, but of 80 companies that have switched to e-voting, reports the *Wall St. Journal*,on average, 4.6% of individual shareholders voted electronically, a sharp decline from the 19.2% who voted in the year-earlier period via printed paper ballots, according to Broadridge Financial Solutions, The former ADP Brokerage Services processes over 95% of all street shareowner communications in North America and is the leading third party provider of global proxy processing, serving over 13,000 public corporations.

The Broadbridgeestimates that the 103 companies it surveyedsaved $29 million on printingUnder the e-proxy system, public companies are required to post annual reports and information about directors on the Internet. Large companies were required to begin posting material online as of Jan.1, while smaller firms have until January 2009 to comply. Shareholders can elect to use print, but they have to ask for it.

Associated Press

# Shareholder voting declines as companies adopt Web ballots

April 23, 2008

Kara Scannell

When the Securities and Exchange Commission decided to allow companies to collect shareholder votes online, its goal was to help cut printing costs. But something else fell, too the already lethargic voter participation of individual investors.

Some 80 companies that have switched to the electronic model, dubbed e-proxy, have held annual meetings since July, when the rule was adopted, through February. On average, just 4.6 percent of individual shareholders voted on company matters using e-proxy, a sharp decline from the 19.2 percent who voted in the year-earlier period, when the companies sent out traditional paper ballots, according to Broadridge Financial Solutions Inc., which processes proxy votes.

A variety of reasons could account for the decline in voter participation. It could be a temporary phenomenon as shareholders make the adjustment. Several companies say investors were confused by the mailed notice explaining the electronic procedures. Other companies say older people and those living in remote areas are less likely to go online and prefer to receive the documents in the mail.

Pharmos Corp., a bio-pharmaceutical company, switched to e-proxy in October. Gale Smith, director of corporate development, says the move cut costs for the company. It also confused some investors, six of whom scrawled their votes on the cards notifying them of the new electronic procedures and returned them by regular mail.

They had to go out of their way to get an envelope, put the company's address on it, and a stamp. Those six were obviously confused about the process, Ms. Smith says.

The decline in the participation of individual shareholders could give larger institutions and corporate activists greater sway on company matters. Hedge funds and unions, for example, are becoming increasingly vocal on matters such as executive pay. In a sign that institutions are getting more aggressive, the SEC this proxy season has received more requests from companies seeking to disallow shareholder proposals than in years past.

Under the e-proxy system, companies are required to post annual reports and information about directors on the Web. Large companies were required to begin posting material online as of Jan. 1, 2008. Smaller companies have until January 2009 to comply.

If companies so choose, they can notify shareholders by regular mail that their voting cards are waiting online. Alternatively, companies can continue to send out full packages of paper documents even after posting it online. For their part, shareholders can elect to receive paper copies and ballots from companies that chose to use e-proxy, but they have to ask for it.

Some companies, including Exxon Mobil Corp., decided the risk of confusion outweighed the potential cost savings, at least for this season, so they sent shareholders traditional paper proxies and ballots, an Exxon spokesman says. About 40 percent of its shareholders are individuals. Other companies, such as Sun Microsystems Inc., have embraced e-proxy and been happy with the results.

We didn't notice really any major differences in the participation overall or even with retail investors, says Ron Pasek, Sun's vice president of investor relations. He says the company saved $600,000. On the participation side, 89 percent of Sun's outstanding shares were voted for 2007, compared with 90 percent voted in the prior year using the traditional notification routine.

Broadridge estimates that the 103 companies it surveyed saved $29 million using e-proxy.

Some companies have taken a wait-and-see approach before adopting the new procedures. Broadridge estimates that 6 percent of companies have moved to e-proxy in the early stages, although that number is expected to grow. Some businesses have told Broadridge that they are waiting to see how it works for others before making the switch.

Exelon Corp., a utility company, decided against using e-proxy so far because we made some other changes and we didn't want to confuse them too much, a spokeswoman says.

The potential for low voter turnout was something the SEC and other interested parties worried about when the rule allowing Internet delivery passed in December 2006. The SEC says it is studying the latest Broadridge data and that some of the effects may be overstated.

An SEC spokesman notes that the rule allows companies to address lower individual shareholder turnout by sending out full sets of voting materials in the mail to individuals who historically voted after receiving paper copies. We will continue to monitor these issues closely and to consider whether any revisions to the notice and access rules would improve shareholder participation, the spokesman says.

Companies may be less willing to use e-proxy when there are contested issues, including shareholder proposals that the company opposes. That's because individual investors, when they vote, usually vote on the side of management. By contrast, institutional shareholders are obliged to vote in company elections, so their vote may count more heavily if fewer individual investors participate.

Indeed, Ms. Smith of Pharmos says if the company were to object to a shareholder proposal, it would reconsider using e-proxy. She says Pharmos worries that it's too much to ask individual shareholders to read technical documents online. Sending the full information packet along with a proxy card in the mail gives the company more comfort that individuals will understand the importance of some issues and then vote, she says.

You can't really cuddle up on your couch with a monitor, Ms. Smith says.

WSJ.com THE WALL STREET JOURNAL. ONLINE

# Shareholder Voting Declines as Companies Adopt Web Ballots

**By KARA SCANNELL and MATT PHILLIPS**
*April 23, 2008; Page D1*

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Market atch

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By Kara Scannell and Matt Phillips, The Wall Street Journal

Last update: 8:41 p.m. EDT April 22, 2008

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Broadridge estimates that the 103 companies it surveyed saved $29 million using e-proxy.

Some companies have taken a wait-and-see approach before adopting the new procedures. Broadridge estimates that 6% of companies have moved to e-proxy in the early stages, although that number is expected to grow. Some businesses have told Broadridge that they are waiting to see how it works for others before making the switch.

Exelon Corp., a utility company, decided against using e-proxy so far because "we made some other changes and we didn't want to confuse them too much," a spokeswoman says.

The potential for low voter turnout was something the SEC and other interested parties worried about when the rule allowing Internet delivery passed in December 2006. The SEC says it is studying the latest Broadridge data and that "some of the effects may be overstated."

An SEC spokesman notes that the rule allows companies to address lower individual shareholder turnout by sending out full sets of voting materials in the mail to individuals who historically voted after receiving paper copies. "We will continue to monitor these issues closely and to consider whether any revisions to the notice and access rules would improve shareholder participation," the spokesman says.

Companies may be less willing to use e-proxy when there are contested issues, including shareholder proposals that the company opposes. That's because individual investors, when they vote, usually vote on the side of management. By contrast, institutional shareholders are obliged to vote in company elections, so their vote may count more heavily if fewer individual investors participate.

Indeed, Ms. Smith of Pharmos says if the company were to object to a shareholder proposal, it would reconsider using e-proxy. She says Pharmos worries that it's too much to ask individual shareholders to read technical documents online. Sending the full information packet along with a proxy card in the mail gives the company more comfort that individuals will understand the importance of some issues and then vote, she says.

"You can't really cuddle up on your couch with a monitor," Ms. Smith says.