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Notice and Access Implementation Proceeded Smoothly for Many but Showed Modest Cost Savings Overall

Early Adopters Desire Greater Flexibility and Better Overall Notice Design

Key Findings

* While 70% of respondents indicated that they saved money using Notice and Access (also known as E-proxy), the actual savings were modest. The greatest proportion of respondents (31%) indicated that their total budget this year was 75-99% of their pre-Notice and Access budgets (or savings of 1-25%). The next largest proportion of respondents (25%) indicated that they did not save money using Notice and Access.

* Similarly, 83% of companies responding to the joint NIRI/Society of Corporate Secretaries and Governance Professionals survey printed fewer annual meeting materials. Thirty-eight percent printed 25% or less than their pre-Notice and Access order, yet savings on printing were not nearly as dramatic. The largest proportion (31%) spent 76%-100% of their previous print budget on printing this year, suggesting that unit costs have risen substantially. See Figure 1.

* The printing figures stand in sharp contrast to the numbers of shareholders who requested print materials. Eighty percent of those taking the survey reported that 5% or fewer of their shareholders requested print materials.

* Service provider costs increased for 58% of respondents to the survey. Fees paid to service providers for the greatest percentage of respondents (34%) topped \$100,000 for this proxy season.

* Ninety-nine percent of respondents achieved a quorum.

* Though some respondents underscored the importance of planning and the learning curve involved, the mechanics of the

process were not overly burdensome for the majority of respondents, as reflected in Figure 2.

* Shareholders seem largely indifferent to Notice and Access. Nearly three-quarters (74%) of respondents report no or neutral feedback from their shareholders.

Discussion

Who Implemented and Why

Overall, 44% of respondent companies implemented some form of the Notice and Access proxy distribution model, compared with 56% who indicated their plans to do so in NIRI's November 2007 pre-proxy season Notice and Access survey

http://www.niri.org/irresource_pubs/alerts/ea080124_2.cfm?id=67&pdf=ea080124.pdf .

Ninety percent of those participants who engaged in the E-proxy process implemented Notice and Access this year for the first time. The majority of those that used Notice and Access (68%) were small- and mid-cap companies. Similarly, 69% had 10,000 or more shareholders (39% had 10,000 to 99,999 shareholders and 29% had more than 100,000 shareholders). For those who opted not to adopt at this time, the single biggest factor cited ^ by 72% of participants ^ was a desire to await lessons from early adopters, consistent with NIRI's previous survey on this topic (in which 65% cited this reason). The presence or absence of non-routine shareholder proposals was a factor in deciding whether to go forward with Notice and Access in 24% of the cases. Some respondents felt more comfortable implementing in a year where no such proposals were in place. Others engaged in scenario planning to understand the possible impacts of such measures, but ultimately decided they could manage the risk (question posed only to Notice and Access adopters). The Mechanics of Notice and Access

While 42% of those companies implementing e-proxy adopted the notice only model, the same proportion (42%) took the bifurcated or hybrid approach. The bifurcation distinctions made were fairly evenly distributed across those who differentiated based on number of shares held, by beneficial versus registered holders, and "other" which included geographical delineations, 401K participants (who received full packages) and variants on the above. Fifteen percent of Notice and Access implementers engaged in full set delivery and thus did not reap the level of savings enjoyed by those using the notice-only or hybrid models. In point of fact, 71% of respondents

using full set delivery did not save money on E-proxy, accounting for nearly one third of all the implementers whose costs did not decrease (Figure 3). The 40 calendar day requirement for availability of online materials and Notice mailing was met without problem by 84% of those surveyed. Only 9% took advantage of the opportunity to send a second mailing after the 10 calendar day waiting period. The vast majority (91%) of the rest of the respondents did not see a need for a second mailing. Half of those who did a second mailing did so out of concern for vote participation.

The Votes ARE in

Although NIRI's 2007 survey indicated that members held reservations about E-proxy and its potential to impact voting, the post-implementation survey indicated positive results in this regard. Quorum was achieved by nearly all respondents (99%), and for 82% of respondents, 76% or more of shares were voted. Despite a significant percentage of survey participants who saw a decline in retail voting (44%), the percentage decline was less than five percentage points for the largest proportion of respondents (35%). See Figure 4.

Looking Ahead

Although meeting its basic objectives for 95% of respondents, one of the most consistent pieces of feedback was a desire for greater flexibility and a better overall design for the Notice. Opportunity clearly exists to enhance Notice readability, particularly in order to promote comprehension for less sophisticated investors. Some respondents report receiving Notices marked up with their shareholder's votes. Another point of confusion was related to the rule for the documents to be hosted on a Web site that does not track user information. The SEC final rule indicates that the site must be cookie-free, but greater clarity is required to adhere to the spirit of the rule, rather than specific technical requirements that may or may not support the objective. The survey instrument provided space for open-ended suggestions for the SEC and for other issuers looking to implement E-proxy. The most common suggestions for the SEC involved revisiting the Notice, shortening the 40 calendar day lead time to 30 days, and investigating the fee structure of the service providers, with Broadridge's seeming hegemony raising concerns for some (see Figure 5 for customer

satisfaction ratings of the major providers). For non-adopter companies looking at this process, the most common advice can be summed up as start early and/or start small. For their own future arrangements, 36% of companies report considering changes including printing fewer materials, changing service providers, moving to full set delivery, and including more shareholders in the Notice delivery (as opposed to full set). One common and judicious plan, however, is to wait to see what is on the proxy next year before making any further modifications.

Source: NIRI and The Society for Corporate Secretaries and Governance Professionals