

Shareholder voting declines as companies adopt Web ballots The Associated Press April 23, 2008 Wednesday 2:48 PM GMT

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HEADLINE: Shareholder voting declines as companies adopt Web ballots

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BODY:

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.

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