THE SHAREHOLDER SERVICE

OPTIMIZER

HELPING PUBLIC COMPANIES—AND THEIR SUPPLIERS—DELIVER BETTER AND MORE COST-EFFECTIVE PROGRAMS

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IN THIS ISSUE:

SOME EARLY RETURNS FROM THE 2013 ANNUAL MEETING SEASON: A TRUE "SEA CHANGE" IN EXECUTIVE PAY PRACTICES, WE SAY…

Although it seems to have gotten lost in the mountains of proxy-voting commentary and analysis that have been over-filling our in-boxes these days, we believe we are witnessing a major, and a totally unprecedented tipping-point where executive pay is concerned:

In mid-January, the **JPMorgan** board voted for what the WSJ called a "Whale" of a pay cut – a whopping 50% decrease for 2012 vs. 2011 – which put JPMC's Chairman $ CEO **Jamie Dimon** roughly on-par with the CEO of still floundering **Citigroup**, with just over one third of JPMC's 2012 net income. The same article noted CEO pay cuts for shaky performance last year at **AT&T**, **Avon Products** and **P&G**.

Meanwhile, after meetings with big activist investors - like the **AFL-CIO** and others - to try to head-off another Say NO On Pay vote - Citi tightened its pay-for-performance metrics and agreed that no "performance units" at all will be awarded if performance lags behind three quarters of its eight peer-group banks. Citi, under pressure too from **NYC Comptroller John Liu**, also broadened its claw-back provisions to include more officers, and more disclosure…joining a long list of banks on Liu's list that have agreed to additional pay claw-backs, like **Capital One**, **Goldman Sachs**, **Morgan Stanley**, **JPMC** and **Wells Fargo Bank**.

On the non-bank scene, companies like **CenturyLink**, **Dell** and **Diebold** will not award performance shares if investors lose money over a three year look-back…with more such moves to come, we guarantee.

In connection with this year's annual meeting disclosures, **Chevron** announced that its board "took into account certain operating incidents in 2012" – with a 13% cut in the CEO's bonus - and 15% and 16% cuts in the 2012 bonus awarded to two other top execs. **Johnson & Johnson** cut the CEO's bonus by 10%, its proxy statement said, "To hold Mr. Gorsky accountable for the company's 2012 performance"… and cut other senior officer bonuses, including the CFO's, by 10% as well.

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Under pressure from a group of 13 US & UK investors, led by the **UAW Retiree Medical Benefits Trust,** six US drug companies – **Amgen, Biogen, Bristol Myers Squibb, Johnson & Johnson, Eli Lilly** and **Merck** – agreed to claw back pay from execs who violate ethics rules or behave inappropriately – even if no financial restatements result, joining **Pfizer**, which agreed to similar provisions last year.

In 40+ years of observing the annual meeting scene, your editor can not recall a single year where so many governance changes – much less pay-related ones – were made by US companies. A major sea-change this season, for sure.

So what's behind all this? It's mainly in the math, as another article illustrates below, and clearly we hope:

Institutional investors now hold roughly 70% of all shares – on average – and often, where mega-cap companies are concerned – a lot more. Many of them are MAD – at what they see as excessive pay – but mainly they are *fighting-mad* these days about pay schemes that do not tightly tie executive pay to corporate performance. (The real wonder here is why it took them so long to wake up! – See the next article.) And, as we constantly remind… institutional investors *always* vote their shares.

Add to this another big change – Says-On-Pay – and – an even bigger "sea change" on the corporate governance scene, for sure – the widespread move to majority election of directors – coupled with the very real threat these days, of directors coming up "way short" on votes – and maybe not being elected at all.

So readers…if you haven't done so already, better kick your electioneering and vote gathering machinery into high gear!

And p.s.…just in case you missed it, the actual pay scales swung dramatically over a "tipping point" in 2012:

A March 21 WSJ chart created by the Hay Group shows that 65.3% of pay in 2009 was salary, options and restricted stock, with only 34.7% "performance related" – while in 2012, 50.6% of CEO pay was in annual bonus and awards of cash and stock that are tied directly to performance.

"THE BIG NEW THING IN CORPORATE GOVERNANCE" HAS ARRIVED, PLEASE NOTE: "HOLDING DIRECTORS' FEET TO THE FIRE FOR THEIR STEWARDSHIP OF THE CORPORATE COFFER"

Please remember, you read it here first:

Our prediction that a lot of those dopey, check-the-box governance proposals would fade away in importance as investors finally catch on to what truly makes for "good governance" - and for good companies: Directors who pay close attention to the corporate coffers…and not allow the managers to hoard cash (like at Apple, where the cash is earning close to zero returns and where David Einhorn is now "on the case") or fritter it away on badly conceived and/or badly executed acquisitions (like last year's $8+ billion write-off at Hewlett Packard…within just a few months following an ill-vetted $11 billion acquisition…engineered by a brand new and soon ousted CEO and where the Lead Director stepped down and two directors left altogether after successful vote - no campaigns)…or at Dell…where the founder - a clearly not "disinterested party" – is trying to engineer a going-private transaction at what at least three major investors are saying is way below "fair value."

OUR NUMBER ONE SURVIVAL TIP FOR THE 2013 SEASON: "DON'T RIDE INTO YOUR MEETING WITH A BIG HAT AND NO CATTLE"

Most companies are achieving big fat quorum numbers – of 80% and higher these days. But a lot of those quorum points are made up of Broker Non Votes – which don't count toward the election of directors – or on other non-routine items, like Say On Pay approvals -- as we told listeners in a March webinar hosted by Broc Romanek of the corporatecounsel.com. (The audio is on our website, www.optimizeronline.com) And, we added, a steadily growing number of those quorum numbers are due to "abstainers" – who don't know about or care about such items enough to cast a vote.

So if your 80% quorum is composed of 20% BNVs and, say, 10% abstainers on one or more agenda items, your real voters – and the actual votes cast – are down to a mere 50% of all the votes that could be cast … which makes it perilously easy for naysayers to actually rule the day, or, at the very least, to rack up an eye-catching percentage of votes NO…

Please remember, as we've reminded readers time and again, "80 is the new 50" when it comes to getting a passing grade from investors…and from your own directors as well, who are decidedly NOT HAPPY if the votes cast are not at least 80% in favor of their election – and in favor of the executive pay plan.

And let's also remember that the people who are unhappy – let's say with directors, or with executive pay in general - or with one of your pet proposals – or, just as bad, who are happy about a shareholder proposal you don't want to have pass – always vote, Meanwhile, the basically happy, or happily un-engaged shareholders are voting at lower and lower rates with each passing year.

So do your math with care – long before you ride into this year's meeting, we advise: Start with a careful analysis of last year's voting – then make sure you have a plan in place to round up and corral a sizable percentage of your "live stock" that will provide that much-needed 80% of the votes cast…in your favor.

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HAVE DELAWARE – AND OTHER STATES – LONG VIEWED AS "PROTECTORS" OF RESIDENT-SHAREHOLDERS' LOST OR ABANDONED PROPERTY – BEC0ME PREDATORS INSTEAD?

WHAT'S HAPPENING WITH THOSE "CONTINGENT AUDITS" – WITH LOOK-BACKS TO 1981 (!!!)

WHAT ARE THE DETAILS – AND THE PROS AND CONS OF THE NEW DELAWARE "VOLUNTARY DISCLOSURE AGREEMENT" PROGRAM??

WHAT'S A GOOD CORPORATE CITIZEN TO DO?

Required listening, we say. And truly riveting: The Society of Corporate Secretaries and Governance Professionals April 4th webinar, featuring Suzanne Rolon, Director Corporate Governance at Pfizer Inc., Jennifer Borden, EVP & General Counsel at Unclaimed Property Recovery and Reporting (UPRR) and Debbie Zumhoff, Chief Compliance Officer at KEANE…and moderated by your editor.

Open to Society and SSA members only, this is well worth your time and attention, we guarantee – and ESPECIALLY if you have not had a visit yet from the "contingent auditors."

A FEW "HOUSEKEEPING ISSUES" TO ADD TO YOUR ANNUAL MEETING PLANNING AGENDA

...or to tick off your list before the big day looms...

Your editor unexpectedly missed his planned appearance in Broc Romanek's annual Annual Meeting Planning Webcast, with luminaries like Dannette Smith of United Health Group, Susan Permut, of EMC Corporation, John Saia of McKesson and Grace Holmes of Cameron International.

A transcript of the webcast is available on the corporatecounsel.com website, which we urge you to review before your meeting date.

Normally, we sort of "sweep up" and sometimes polish up a few of the stray housekeeping details, based on experiences from the 400+ shareholder meetings that we and our now 35 Inspector of Election associates attend each year. So we can't resist adding a few points – plus a few "counter-points" to the excellent practical tips the webcast contains:

On the use of hotels: We, as sort of "control freaks" where shareholder meetings are concerned, absolutely agree with **Dannette Smith's** tip that using a company facility "where one can be in complete control of the environment" is the best way to go…And it's usually the most cost-effective way to boot. But if your corporate space does not allow you to be completely in control – or if there may be issues with unexpectedly large attendance, a larger than usual number of potential troublemakers…or, the thing we ourselves always check on first – if you are not absolutely certain that there will be a safe and orderly way for a large crowd to exit quickly in case of an emergency…DO think about using a hotel, where such considerations are normally built-in to the design and management and operational structures. Also, as we've noted before, people who may think and act in a company facility as if "they own the place" tend to be on their best behavior (albeit still not so nice) in a nice hotel. And best of all, as we experienced at a meeting last year, it's a lot better for the hotel management to be the "tough guys" when it comes to strictly enforcing the rules – which greatly decreases the possibility that your company will be depicted as a big bad bully.

On employee attendance: Most of the panelists tended to discourage employee attendance at the shareholder meeting – and that is quite understandable: Aside from potential crowd-control issues, the meeting is almost always archived on the web these days…and hey; most employees have WORK to do the day of the meeting….But we hark back to a **Whole Foods** meeting we attended and wrote about a few years ago, where a big and enthusiastic crowd of very happy employee-shareholders turned out to see their big bosses up close - and to cheer on the good results – and completely took the wind out of activist investor sails. Quickly sensing their lack of popularity, the activists hurried through their proposals, drastically shortened the long statements they had in hand – and, quite properly, had to take their second turns at the microphones behind long lines of employees – and enthusiastic customers too – who wanted to focus on day-to-day business issues…like when more stores would be opening near them. [We like the "family hold back" policy regarding employee attendance – where employees are reminded to give up their seats to outside stockholders if there are unexpected crowds, and maybe to watch from the overflow room…But having lots of "friends and family" at a shareholder meeting is tops in our book, as a way to have a friendly and "family-oriented" meeting instead of a shouting match.]

On whether directors should be facing the audience: Different strokes for different folks, and maybe for different days too, but the very best remark we've ever heard on this subject came from **Ivan Seidenberg**, the former CEO of **Verizon Inc.**, when he was asked by a shareholder 'why are the directors not facing us?': "They are doing their most important job" he responded, without a moment's hesitation; "They are watching ME…And believe me, if I flub anything in their opinion, I will hear about it from them right away." [As frequent meeting attendees, we like it best of all when directors turn around completely and stand up straight when introduced, maybe wave, or smile, or otherwise acknowledge the shareholders…and remain standing and facing the audience until all directors have been introduced - and applauded as a group. We cringe when directors barely pop up, turn around halfway and sit right back down as if maybe they're embarrassed to literally stand up and be counted, and recognized by meeting attendees. Please put this tip in your meeting kit-bags, we urge you: It really helps to set the right tone – and to make a very fine opening impression on the audience.]

ANOTHER HOT ISSUE TO WATCH THIS SEASON: "THE EFFECT OF THE MISSING 'BUTTON'"

Foolishly caving in to gadflies, who whined that the "button" on telephone and Internet voting sites that let shareholders "Vote in accordance with management recommendations" was giving management an "unfair advantage," the SEC issued guidance that the "button" had to be dropped – unless management added another button to "Vote AGAINST management" on all issues…

Do the gadflies – and the SEC staff – have so little respect for the intelligence of the constantly shrinking number of individual investors who still go to the trouble to vote their proxies that they think they are simply too dumb to know what they are doing when they push the button?

While the gadflies know that individual investors normally vote solidly against them (over 90% vote with management on average) - they also know that setting up a huge new hurdle for over-busy visitors to telephone and web-voting sites will help to hype the gadfly percentages…big-time. (See the article above for the math). But clearly, the SEC – which SAYS they are already worried about the falloff in individual voting – allowed itself to be totally snookered here…

Just try voting by phone if you have to listen to the names of 10 or 12 directors read off one-by-one – followed by 2-3 management proposals and maybe 2-3 gadfly proposals – with each of the three "buttons" one can press read back each time too…and ask yourself if you would take all the time and trouble that's entailed.

We predict that even more individual investors will give up and/or hang up on telephone and internet voting sites this year than they have already been steadily doing…So issuers, watch this year's numbers with special care…especially in light of the earlier advice on "rounding up" the retail vote.

SUING THE INSPECTOR(S) OF ELECTION

Your editor made yet another cameo appearance in Broc Romanek's webcasting world in March (the audio is also on our website) …on the above-captioned subject.

This is worth a few minutes of your time, we think…if you are a transfer agent who provides Inspectors of Election at annual and special meetings – or if you do so as part of your proxy solicitation or proxy tabulation business: Aside from potential conflicts of interest – or perceptions that there may be such problems (like when one gets paid to drum up votes – and then to count them… and then to 'inspect' one's own work) – TAs, Proxy Solicitors and professional Tabulators often have the deepest pockets in the room…and thus become especially vulnerable to being dragged into lawsuits.

If you are an issuer of securities, the 64-dollar question to ask, of course, is "What have Inspectors done to actually "inspect"? And does it pass the sniff test, much less comport with the official Oath of the Inspector?"

If you are an Inspector – who serves, please note, as an individual person, the 64 million-dollar question is, "Am I fully indemnified against such suits, regardless of - and maybe especially in light of - how meritless they may actually be."

QUOTE OF THE QUARTER

"The great challenge for today's boards in this new era of activism is catering to all the diverse 'shareholders,' which includes those with a longer investment horizon like pension funds and mutual funds, as well as those who are seeking quick profits. The board should represent all shareholders, not any one region or philosophy.

Many companies are 'owned' by both long and short-term shareholders. The short-term investors surely have created an atmosphere of passion for immediate returns, but the board doesn't have to succumb. It needs the courage to discover and communicate with long term shareholders…who don't necessarily agree with the tactics of their short-term counterparts."

Ira Milstein, co-chair of the Millstein Center for Global Markets at Columbia Law School and a senior partner of Weil, Gotshal & Manges …in the March 8th NY Times DealB%k column.

TRANFER AGENT MARKET SHARE: THE MAIN "DECIDER" WE SAY, IN THE LONG-TERM-SURVIVAL GAME... IS THE "END GAME" IN SIGHT?

Recently, we were startled to realize that our last update on Transfer Agent market share was way back in the first quarter of 2009. We were even more surprised – and even more startled – by the current numbers, which are shown in a chart below.

The biggest surprise was how much the total market for registered shareholder services has shrunk since our last update. Why is this so important? To us, as avid observers of - and as one-time active players in this universe – it tells us that the industry will, almost certainly, continue to contract…and to consolidate further - and that we may well be seeing the "end game" that most of the players have been expecting all along.

At least four factors account for the huge drop in the number of registered shareholder accounts that are being reported:

First, and easiest to explain, is that the average company is seeing about 5% of the registered shareholder base rolling off each year due to what we call "secular attrition" – a combination of the Grim Reaper doing his work, coupled with a clear preference among the heirs and assigns for street-name rather than registered ownership. This factor alone translates into a 20% decline in registered owner records – and that's without compounding – for a loss of at least 13 million shareholder accounts since the beginning of 2009.

Second, as we've noted here before, the number of NYSE and NASDAQ listed companies has dropped very dramatically over the past five to seven years - from 8500 or so to just about 5000 today – due to M&A and going-private activities, bankruptcies, de-listings, etc. And this, coupled with a dearth of IPOs and spin-offs that are large enough to make a difference, accounts for most of the remaining drop in registered owners.

Two other factors play a role in the number of holders TAs have been reporting; (1) the closing out of closed accounts, which many TAs kept on their books – and billed for to some extent, with some justification – but which tend to disappear when the business moves to another TA and (2) the fact that TAs have a much harder time "hyping their numbers" without being called out than they had when the universe was so much larger and more dynamic.

And actually, without naming names, we ourselves are still suspicious about some of the gross numbers being reported…or at least about taking them seriously as an indicator of an agent's true size and strength: The only "accounts" worth counting – at least in our book - are those that are being billed for…And we do believe that a fair number of (pre-paid) un-exchanged shareholder accounts - and accounts in basically bankrupt or otherwise "no account companies" in the roughly 11,000 "issuer clients" that the agents reported have created a fair amount of "windage" in the already shrunken numbers that are reported below.

But wait…as we've been fond of saying of late…There's more! We believe that 20% - and sometimes way more of the reported numbers of holders – hold truly meaningless "positions" as registered holders…which isn't good for TAs either, long-term: We have seen many companies where 85-90% of the registered holders hold less than 4% - and sometimes less than 2% of the shares outstanding. We ourselves, following our efforts to exit most of our Dividend Reinvestment Plan positions – in order to consolidate our holdings - and to reduce all that paperwork – now have at least ten "registered positions" with way less than a full share – since most TAs do not automatically sell the tiny fractional share that typically remains when one transfers one's DRP "position" to a brokerage account.

There's another, very important observation to make about the market share numbers reported below - namely that the most meaningful measure of market share is in dollars of revenue rather than numbers of "clients" – whether one is counting issuers or shareholders as the clients. In this business, the "richest" sources of revenue tend to be provided by large-company clients, with a rich array of products and services - like regular dividends, DRPs and DSPPs etc.Usually – but not always, we'd note, given today's cut-throat competition – such clients tend to produce much bigger gross revenue. We have our own educated guesses as to the annual revenues at each of the top-six providers, and, while both the gross numbers – and the relative profitability vary widely among them – we do think the relative rankings show in the chart are pretty much on track, dollar-wise, with the number of shareholders and number of issuer rankings.

One other thing jumps off the chart of course, and that's the fact that the former number-one player is gone from the business…along with the former number-seven…while Broadridge – which wasn't IN the business in 2009 – has grown since its initial purchase of roughly 250,000 shareholder accounts to a whopping 1.6 million in just three short years.

And lastly…yes…there's more: See that 1.8 million number in the "all others" section…that used to be 5.3 million in 2001? The total shareholder number is mainly made up by an ever-shrinking number of issuers that still serve as their own transfer agent…And, if one can believe the rumor mill - and we do in this case - that number will soon decline by about 1.3 million more, which will shake up the relative rankings - and the competitive scene in a pretty big way…

Bottom line, as we've said on these pages again and again, "The dealin's here are far from over" so stay tuned for more….

#

TRANSFER AGENT MARKET SHARE

Based on shareholder accounts (millions) and by issuer clients*

AGENT	A/O 1/01	%	A/O 1/09	%	A/O 3/13	%	ISSUERS	%
BNY-MELLON	29.0	44%	32.0	48%	-0-			
COMPUTERSHARE	22.5	34%	19.0	29%	25.7	61%	3.665	31%
WELLS FARGO	1.3	2%	3.4	5%	6.5	16%	602	6%
AST	4.5	7%	6.0	9.0%	3.5	8%	3,000	25%
CONTINENTAL	0.9	1%	1.5	2%	1.7	4%	1,615	14%
BROADRIDGE	-0-		-0-		1.6	4%	270	2%
R&T	0.7	1%	1.0	1%	0.8	2%	1,100	9%
NAT'L CITY	0.7	1%	1.0	1%	-0-			
NEXT 4 AGTS	0.5	0.75^	0.5	0.75%	0.3	.07%	500	4%
ALL OTHERS	5.3	8.8%	2.0	3.75%	1.8	4%	1,000	9%
TOTALS:	64.4		65.0		41.9		11,752	

* Excludes ADR holder clients and related shareholder accounts
Source: Carl T. Hagberg and Associates

IS THE TRANSFER AGENT "END GAME" IN SIGHT?... WE SAY YES A FEW TIPS ON WHAT TO THINK ABOUT - AND TO DO NOW...

- If you accept the premise that the end-game really is in sight, then obviously, one should be reluctant to move to a new provider unless one is as certain as one can be that the newbie WILL be a long-term survivor.

- Interestingly, all of the top-six providers actually have pretty strong "long-term survivor stories" to tell: Computershare has a huge - and global transfer agency franchise…with lots of non-US & non-TA revenue sources. Wells Fargo Bank's Shareowner Service unit gets a ringing endorsement as a "core product" - straight from the top of the house. AST's relatively new owners reportedly invested over a billion dollars (!) to enter the US market…Both Continental and R&T have strong, knowledgeable, entrepreneurial owners "in the house" and available every day – and both have a fairly tight focus on clients who provide the right 'fit' with their business models…And Broadridge, of course, already has a strong, basically indispensable and usually much-valued presence, come annual meeting time, at every US public company…and is a strong US public company to boot.

- So if you are not happy with your TA, review our article on **"What To Do if You are Not Happy With Your TA"** (it's on our website) and DO it, as step-one – but all the while, focusing intently on evaluating the likely long-term survivability of each TA.

- We hate to have to say this, but, having been in the biz ourselves, we know it's true: "It's the squeaking wheel that gets the grease" in the TA world. So start squeaking – loudly, and persistently if you have issues…and make sure you're being heard at and by the top of the house.

- Let's try to put the previous message – and to deliver it we urge – in a much more positive way: Approach your TA as a valued long-term partner, where it is in your mutual best interest to discuss and listen to important "issues" – and to work them out to your mutual satisfaction…promptly. (Any ifs ands or buts here…run for the hills.)

- If you decide a change of TAs is in order – or if you are forced to look around by corporate buying-policies – review our article **"A Checklist of Best Practices in Selecting a Transfer Agent."**

- Last, and far more important we think than ever before, engage an outside expert to help you…not just with the deliverables, and the numbers, and the contract provisions – but with the super-tricky "survivability odds"…so if he or she bets the wrong way it'll be on their head, not yours.

COMING SOON:

Computershare "puts its money where its mouth has been" – New venture bids to compete with Broadridge for street-side proxy distribution

A long overdue update on those Transfer Agent "scorecard results": Meaningful…or not?

As popular stocks reach record highs – A review of stock spit pro and cons…

MEANWHILE…AS THE EQUITY AND DEAL-MARKETS CONTINUE TO STAGNATE, AND WITH PUBLICLY TRADED COMPANIES AND THEIR REGISTERED SHAREHOLDERS IN FREE-FALL, WHAT'S UP WITH ALL THOSE PROXY SOLICITORS?

Good question, we think…and now is precisely the time to start asking it, as proxy solicitors begin to "show their stuff"…or maybe not…since we've witnessed, and written a lot about all the "newbies" and low-level people at some solicitors whose "stuff" has fallen far short of what is needed.

There are a lot of similarities with the TA business these days, since they are both "service businesses" that often mistake their real mission by focusing their efforts on widget-pushing, misguided automation strategies (like robo-calling and computer-driven "targeting" and report-writing/tracking programs) and other cost-cutting and sometimes corner-cutting strategies… instead of on service.

And both businesses, as noted, have been severely impacted by a host of unfavorable marketplace, demographic and competitive factors…where, to put it plainly, there simply isn't enough business to go around.

At least one big firm has been shopping itself around, while several others seem to be hell-bent on turning themselves into "finders of lost persons" – another business that had been seriously overcrowded…then blessedly not…until the big falloff in proxy activities.

The biggest difference vs. the TA world, as we've noted here often, is that "all of the talent takes the elevator down and goes out the door every day." This is, basically, a "people business."

And – since it's "the talent" that is most valued by clients – and that typically resides with people who, rightly, have a high sense of their own self-worth, and who tend to be much in demand – bureaucratic, or worse, autocratic companies tend not to be the most favored places for such talent to work. To put it another way, it's the most entrepreneurial companies that seem to attract, and retain, and to HAVE the top-talent in this business these days…or, at the least, to do the best job of portraying themselves as having it…And yes, for sure, show-business is a very big factor here.

Look for more consolidation in this industry too, we predict…and, exactly as we advise re: TAs…Start to do your homework here too.

OUR TOP TIPS ON WHAT TO THINK ABOUT – AND TO DO ABOUT PROXY SOLICITORS…NOW

- If you are using a proxy solicitor this season, ask yourself – and your team – if you are receiving the level of personal service, information and attention you expect to have. Most important; are the voting results in line with their promises – and with your expectations? Did they meet, and ideally exceed your goals?

- If you have not been using a proxy solicitor, you should seriously consider developing a relationship NOW with a firm you can trust to very quickly jump in, in a pinch - say if there is a business crisis that might require fast and effective outreach to investors - or if there should be an "approach" by an unfriendly investor or a would-be acquirer.

- Exactly as with our Transfer Agency tips, you will want to give a very high degree of weight to the likely long-term survivability of the firms you look at. The size and strength of the firms' "core talent pool" is the number-one predictive factor we say.

- A critically important factor in our book is "Who, exactly, will be in charge of – and actually ON your account": Having not just a pro, who has ample time for you - but having "good chemistry" –where your day-to-day contact is on the same wavelength as you – and whose style will fit well with the way the key members of your management team tend to operate – is the number-one item.

- Because all firms have some very good people, we continue to say, "Use the lifeboat test as the deciding factor"… And believe it; surviving a proxy fight - or any head-to-head struggle with a clever and determined adversary - is basically identical to a life or death experience…so choose your advisors with this in mind.

- Do look closely at "the numbers" – not so much to haggle over or to decide on the basis of pricing, but rather to be on the watch for big-spending strategies, hidden charges or nickel and diming that should raise warning flags about the players themselves -and their ethics, or lack thereof. Sometimes, sadly, some ethical and economic and tactical "blind-spots" tend to come along with the free-booting spirits of overly-shrewd and overly zealous "proxy-chasers." Look for and stick to the statesmen we advise.

REWARDING LONG-TERM STOCK OWNERSHIP

We hate it when the European Union seems to forge far ahead of us on governance issues…so we did a double take when we read in the Financial Times that "Loyal shareholders in European companies would gain extra voting rights and a bigger slice of dividends under a proposal being floated by Brussels to spur long-term investment."

There's something to be said for getting older, we guess…since, guess what…we in the US have "been there, tried that," and by and large found that many ideas are not all that workable.

Way back in 1986 a mini-movement sprung up here to give long-term shareholders extra votes for each year they held the stock – generally with a cap of up to ten votes per share. American Family Life was the first adopter, and ultimately about two-dozen companies did the same – including **Church & Dwight** and **McKesson**, which have since dropped the feature. A few companies still have it, and still shake their heads each year, figuring out how to make it work.

The biggest practical problem is how to track and how to *validate* such added rights – since so many shares are held in street name these days, and they are mostly treated as a "fungible mass." But the real problem is that the theory behind the super-voting idea no longer works as intended…and, in fact, often reinforces the size of the "problem" it was meant to fix: The idea back then, was that loyal, long-term investors – who were mostly individual investors – would always vote with management – and against those activists and "short-termers." Today, of course, the longest-term investors are those often pesky institutions…and many of them are serial "proponents" of ideas that management is not usually so keen on.

Tracking added "rights" to added dividends for long-termers is equally difficult, if not currently impossible where street-name positions are concerned – and equally problematic is devising a truly appropriate and effective "reward mechanism."

But as we consulted our "private archive of history stories" we found several ideas that DID WORK – and that will still work to reward long-term investors we believe.

The first goes all the way back to 1980 – when the **Committee on Capital Formation Through Dividend Reinvestment** was formed – spearheaded by over 30 electric, gas and telephone "utilities" – and yes, they were all regulated utilities back then – with a constant need to make sizable capital improvements, both in capacity and infrastructure. And, in the case of banking institutions – that also signed on enthusiastically to the movement – there was a constant need for "regulatory capital" to safely underpin and fuel their growth. The movement was endorsed by a veritable "Who's Who" of major companies and their trade associations. The basic idea was to totally exempt dividends that were reinvested in qualified companies from federal income taxes (dividends were then taxed as ordinary income) – with profits to be taxed later, at more favorable capital gains rates. (A big shout-out should also go to **Morgan Lewis & Bockius** for the great work they did here to get the legislation passed – known as the **"Pickle Bill"** for its prime sponsor.)

A much watered-down version of the proposed bill – with "caps" on the amounts that would qualify in the very low amounts of $750 for dividends and up to $750 more in "optional cash" - and with a four-year sunset provision – was passed in 1981.

Here's a quote from the first–quarter's status report in 1982: "Over 2,000,000 shareholders – in general the smaller ones – participated in the 1st quarter". A truly eye-popping number, no?) "In the 1st quarter, some $345,000,000 of new common stock was provided through dividend reinvestment, with another $100,000,000 provided under the optional cash investment provisions. Such new common stock capital is being used to finance essential new productive facilities, increase output…provide increased employment and significant stimulus to the national economy." In the second quarter, the program generated over $550 million in new investment. And remember, these are 1982 dollars! How the devil did we ever let this lapse??? But oh, yes, that's our Congress in action…or rather, in inaction. Would something like this work today? We'd guarantee it!

So let's turn to another, similar idea – offering a smallish discount – usually only 3% is enough to produce strong cash flows - both from reinvested dividends and "optional cash." Please note that a 3% discount on new stock purchased turns a 3% yield into a 6% yield. And the discount is far less than a company's normal "flotation costs." Following the Latin American debt crisis, also "way back when" in the late '80s - the bank your editor worked for desperately needed new regulatory capital – and our 2% discount captured over half of our entire quarterly dividends – allowing us to gradually, and "systematically" raise nearly $1 billion a year…while watching the stock price very gradually recover. Many REITS still use this method with huge success.

One last thing we reported on not so long ago – the Hampden Inns "Loyalty Shares" program – where business travelers and other guests were able to easily covert their "points" to shares of stock was another HUGE win/win for the company and its shareholders…until the company was taken over, and sadly, the new management was not a very keen or daring thinker on this score. Do WE think this will still work for good companies, with the right kinds of products, services and customer demographics? Absolutely! As loyal stockholders, we'd say, "Wanna give us more votes? Simply give us more shares!"

OUT OF OUR IN-BOX:

A clarification re: brandishing a big stick. A reader of our annual magazine emailed to berate us – thinking that we were criticizing Chevron for "Reaching Out" (to two activist investors) "With a big stick in hand" - in the form of lawsuits against them. We guess our allusion to Teddy Roosevelt's great advice, to "speak softly" (as Chevron usually does) but to "carry a big stick" – may, inadvertently, have left exactly the wrong impression. To be perfectly clear …and what we tried to illustrate… was that that we do, emphatically agree with Teddy…and that "Reaching Out" to activists is not always about "making nice" or worse, "rolling over" – especially if we find their activities are objectionable…or wrong.

PEOPLE:

Lots of good people "on the beach" this quarter as activity levels on the publicly-traded-company scene continue to languish: Proxy fight experts **Ron Schneider** and **John Einsidler**, who had been a Partner there, were cut from **Phoenix Advisory Partners**. **Fran Wolf**, "RFP-responder extraordinaire" was riffed from **Wells Fargo Shareowner Services**… And, after a very short stint indeed, **Julian Clark**, who - after a long career in Canada, followed by shortish careers with the aptly named **Chemical Mellon**, then with **Morgan Stanley**'s stock plan unit - was recently riffed by **AST**. Good news for Ron Schneider however, he recently signed on with Donnelley.

The "Hagberg Team of Inspectors of Election" continues to grow – and to add some mighty impressive talent: **Gene Capello**, who'd served on the legal and governance teams at **JP Morgan**, **JPMorgan Chase** and **Pfizer Inc**, and who is based in the greater-NY area, **Rhonda Carroll**, formerly Chief Governance Officer and Corporate Secretary of now merged **Encore Bancshares**, who is based in Houston and **Denise Kuprionis**, former Secretary and Chief Ethics and Compliance Officer at **E.W. Scripps Company**, who is based in Cincinnati.

Hannah Lyon, a 17-year-old high school senior from Brookfield, CT, and daughter of **SSA** member **Mark Lyon**, of **Webster Bank** in Waterbury, CT, has been named winner for 2013 of the **James R. Smith Scholarship Award**. The award, which is renewable, is the ninth in a program sponsored by the **Shareholder Services Association** and open to the participation of children and grandchildren of SSA members. It was announced by the independent organization that administers the program on behalf of the SSA. Hannah, who has set her sights on a career in foreign affairs, is already an accomplished linguist: Apart from French – one of her favorite subjects – she reads and writes in both Korean and Mandarin. She is active in extra-mural organizations that promote Asian culture, and has served as editor-in-chief of the newsletter of **China's Children International**. A program she founded and organized, called **Planning My Culture Camp**, is now in its second successful year. Hannah, a dog lover, has also found time to serve as a volunteer at her local animal shelter. (We LOVE this program, which recognizes kids with truly amazing work-ethics and achievements [thanks to great parenting we think] who are often not eligible for scholarships and grants, thanks to having such hard-working and successful parents. Especially amazing to note, every single recipient of this award has had it renewed for four full years – by continuing to "stick to business" as the award requires. Three cheers! No! Nine cheers!… Times four!)

Former SEC Chairman **Mary Schapiro** quickly found herself nominated to the Board of **General Electric** - and kudos to GE for acting so quickly to secure such a valuable nominee…in ample time for its April 24th

Annual Meeting. A few weeks later, Schapiro signed on to lead the governance and market practice unit at **Promontory Financial Group** in DC, where she will advise clients on risk management and compliance issues. "In my case, there's no revolving door…I will never be going back to government" she told the NY Times, noting that she'd spent 28 of the last 32 years as a regulator…and that it's "the right time… to do something different."

Kathleen Shannon, who recently retired from American International Group after many years as Corporate Secretary and later as a senior member of AIG's Securities Law division – will be honored at this year's tenth **End of Annual, Meeting Season Celebration and Benefit** on June 7th. Kathy has been a long-term member of the **Society of Corporate Secretaries and Governance Professionals** – a former chair of the Society's **Securities Industry Committee**, a director and Chair-Elect, a long-term member of the **NY Chapter Advisory Board** and the 2012 recipient of the **Bracebridge H. Young Distinguished Service Award**, the Society's highest honor. Quite aside from having been part of some of the most stressful and unusual Annual Meetings ever, Kathleen has been a strong supporter of this event from the very beginning – and a strong and very supportive patron of Fountain Gallery, the beneficiary of the benefit - and its' artists.

For more information, please go to www.fountaingalleryny.org

Regulatory Notes … And Comment

AT THE SEC: Just before we went to press, **Mary Jo White** was confirmed as SEC Chairman by "unanimous consent" of the Senate. White vowed to make tough and aggressive enforcement her number-one priority.

WE sure hope she tackles those flash-trading schemes without delay. (**FINRA** has vowed to look into this too – but it is an open secret that most "flash trades" are totally fictitious – with no real buyers and sellers – and no real money to ever execute them – and are designed solely to create the appearance of "activity" and move the prices around so traders can maybe scarf up a few pennies per trade along the way…and maybe spook the market into doing something totally irrational, that traders can trade on…

AT THE EXCHANGES: As up to 40% of all trades are taking place in "dark pools" or are being "internalized" on many days by firms that pay for order flow - where none of the trades see the light of day - the **NYSE**, **NASDAQ** and **BATS** exchanges are, at long last, pushing the SEC to assure that off-exchange trades will be permissible only when a "significantly better price" can be realized off an exchange than on one. (Proposed new SEC rules were issued in 2010 – with no action taken to date.)

IN THE COURTHOUSE: The **Delaware Chancery's** Vice Chancellor **J. Travis Laster** issued a novel ruling in March, giving a court-appointed receiver the right to seize assets of **ZST**, a Chinese company, to repay a US investor at the $8.21 per share book value the company stated on its financial statements, vs. the current $1.39 market price. Novel indeed, but even more novel, we'd venture, if the receiver is able to fulfill his assignment, given that virtually all the assets are in China – and that ZST – much as predicted by the US accounting expert who said that the JOBS Act would prove to stand for "Jumpstart Our Billing of Suckers" – has "gone dark."…And oh yes, China refuses to allow US accountants and US regulatory agencies to peek at, much less shine a light on Chinese company activities.

WATCHING THE WEB:

The big news this quarter; issuers can now communicate with stockholders over the web – without Rule F-D worries – as long as they tell them they might do so…A HUGE victory for free speech – and for plain ole common sense…But forgive our cynicism, as haters of Facebook, that serial abuser of privacy rights (so please don't be mad when we don't "friend you") and of the aptly-named and mostly vapid "tweets" – but watch for a major epidemic of foot-in-mouth disease, we predict, as corporate types tweet away and post with reckless abandon…