

February 13, 1997

**Stock Plan Dilution and
Negative Shareholder Votes**

As potential dilution from stock plans presented to shareholders has increased, so have negative votes on these plans.

Total Dilution

A recent report from Investor Responsibility Research Center (IRRC)¹ revealed that, among the S&P 500 companies, total potential voting power dilution from all plans (including outstanding and potential grants from prior plans, and potential grants from new plans being presented for approval) was, on average, 9.2 percent. Of the 435 companies in the study, most kept their total dilution below 10 percent, a level that many institutional investors regard as the maximum permissible level. Utilities had the lowest average dilution at 3.9 percent and investment banks the highest at 29.1 percent.

In 1996 IRRC also surveyed their institutional investor clients to obtain information on their voting guidelines. Thirty percent of the 61 institutions in the survey said they automatically vote against plans which bring total dilution above 10 percent, -and many others might vote negatively in such situations.

<u>Dilution Range for All Plans</u>	<u>Impact on Vote (% of Institutions²)</u>		
	<u>Not a Factor</u>	<u>May Affect Vote</u>	<u>Requires a Negative Vote</u>
0% - 5%	67%	30%	4%
5% - 10%	52	41	7
10 % or more	4	67	30

Clearly, high potential dilution is not the only reason shareholders vote against plans. Plans may have other features, such as the ability to reprice options, which are unacceptable to investors. If a company has had poor performance, this can also result in negative votes on stock plans as well as other issues in the proxy.

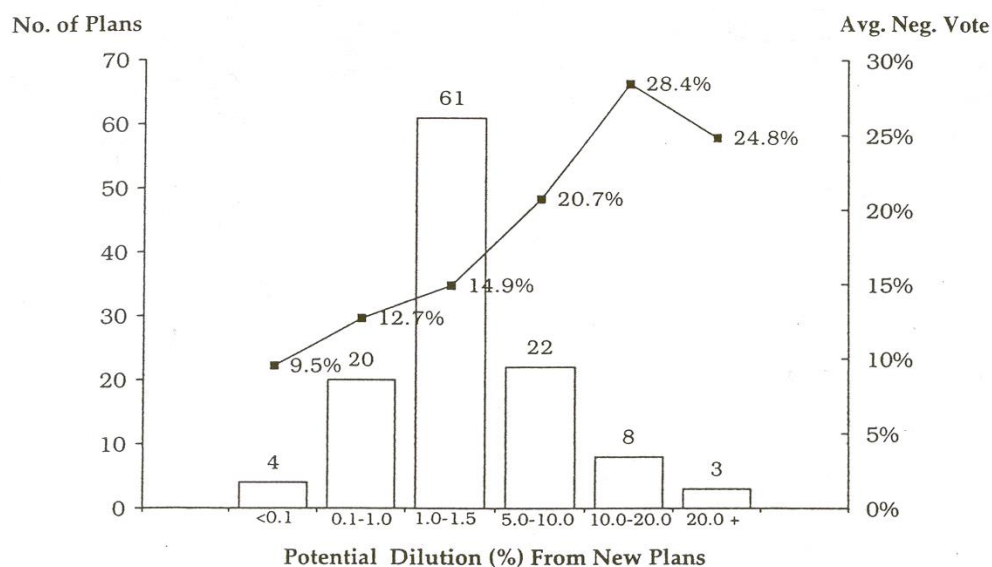
¹ *Potential Dilution from Stock Plans at S&P 500 Companies 1996*, Maryanne Moore and Stephen R. Tobey, Investor Responsibility Research Center, Washington, D.C.

² Does not add to 100 % due to rounding

New Plan Dilution

In addition to surveying institutional investors on their guidelines, IRRC tracked actual voting results. Their results, shown on the graph below, illustrate the dramatic increase in negative votes (20.7 percent against) which occurs when potential dilution from new plans alone exceeds five percent. The bars represent the number of plans (left axis) which fall into each of the six potential dilution categories. Most are below five percent. The line represents the percent of negative votes (right axis) which the plans received. Note that even plans with five percent or less potential dilution received many negative votes.

Dilution Distribution and Votes on New Plans*



* Total of 118 new plans

High Negative Votes

And, finally, IRRC analyzed dilution levels at 20 companies from their total database of 1,500 companies which had received 40 percent or higher negative votes in 1996. They found that all but one had total potential dilution of 10 percent or higher. Potential dilution at these companies was:

**Total Potential Dilution
at Companies with 40%+
Negative Votes**

75th % He	29
Median	23
25th % He	19

Companies requesting more than the standard 10 percent should expect a high level of negative votes and consider careful communication of the role of the plan in their solicitation materials. This is particularly important at companies which want to broaden their option population and, thus, need more shares.

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