



Annual Report: Technology Used for Corporate Proxy Process

A Study by the American Society of Corporate Secretaries

Key Findings for 2002 Proxy Season:

- Issuers provided electronic delivery of proxies and annual reports to 9 million beneficial shareholders and 900,000 registered shareholders¹ -- both of which are sharp increases from the prior season.
- One of four beneficial shareholders (23%) voted electronically via the telephone or Internet during the 2002 proxy season.
- For the first time, internet voting (12% of votes) edged ahead of telephone voting (11% of votes) as the more common method of electronic voting among beneficial shareholders.
- Nearly 2,000 issuers used electronic delivery of proxy/annual report mailings to beneficial shareholders, but only 428 issuers used electronic delivery of proxy/annual report mailings to registered shareholders.

About the Survey:

Since 1998, the American Society of Corporate Secretaries has tracked public companies' usage of technology for the proxy process. This annual report, for the proxy season of 6/30/2001 through 5/31/2002, is prepared through the research and analysis of Rhoda Anderson Associates, a corporate governance consulting firm (www.rhodaanderson.com).

Background

Use of telephone and Internet technology for proxy voting is a proven successful tool. More than 1,700 issuers offered telephone voting and an equal number offered internet voting to *registered*

¹ **About the Terminology:**

Electronic delivery” involves collecting electronic mail addresses of shareholders, sending notice to those shareholders using the e-mail addresses, and notifying them by e-mail where to find the proxy material on the Internet. **“Electronic availability”** involves collecting shareholders’ consent without an e-mail address, and sending notice to those shareholders using a hard copy proxy only, with instructions where to find the proxy material on the Internet. Shareholders can give consent for e-delivery with or without providing their e-mail address. The Issuer must maintain evidence of the consent that remains in effect until revoked by the shareholder.

shareholders in the 2002 proxy season, a significant increase from 1,352 (telephone voting) and 1,274 (internet voting) in the prior season. Nearly all beneficial shareholders are provided the choice of voting by telephone or internet through the ADP-ICS (ADP) system.

Use of technology for delivery of proxy materials—that is, electronic delivery and electronic availability (e-delivery¹)—has also been proven successful for the proxy process. ADP maintains a consent database and offering all Issuers the opportunity to use e-delivery of proxy mailings to *beneficial* shareholders. During the 2002 proxy season, 1,977 issuers participated in this program, which is a substantial gain from the 830 issuers who participated in the prior season.

Consent for registered shareholders are maintained by the different transfer agents or service providers and are maintained for each Issuer. Even without the economies of scale realized in the beneficial process, there was a sharp increase from 308 to 623 of issuers offering e-delivery to registered shareholders.

As was done in the past three surveys, we tracked issuers offering telephone and Internet voting and e-delivery. Two necessary components for using e-delivery are collecting consents and making the proxy material available on the Internet. This year we again asked questions on how many issuers collected consents and made their proxy material available on the Internet.

As the following results illustrate, technology has changed the proxy process. Shareholders do want, and will use, the telephone and the Internet when given the choice. This opens opportunity for issuers to reduce expenses and satisfy shareholders at the same time.

Special Note on Householding: Regulators approved “householding” (combining mailings to multiple shareholders that live at the same address) rule changes in December 2000. Householding by implied consent requires a 60 day notice period to the shareholder. ADP began sending the 60 day notice immediately for specific issuers and was able to do “householding” mailings for the proxy packages in April 2001, just before the beginning of this study period. ADP reports that, for February 15-March 1, 2002, its “householding” efforts suppressed more than 35 million mailings -- about 27% of all accounts processed and yielding an estimate savings to issuers of \$211 million.

Results of 2002 Survey:

I. **Electronic Voting:** The shareholder receives instruction with the proxy card or voting instruction form to vote using the telephone or the Internet. The Issuer saves money on the outgoing and return postage.

A. **Registered shareholders.** All of the Transfer Agents and Tabulators offer electronic voting upon request by Issuers. The number of shareholders using these voting systems, instead of returning a paper card, varies greatly between Issuers and Service Vendors' products. There are still some states that have not clearly allowed electronic signature, therefore Issuers cannot offer telephone or Internet voting.

Telephone Voting (see Table 1)

The number of issuers offering the option to vote by telephone grew sharply. More than 1,700 offered this option to registered shareholders this year. The average number of voting registered shareholders who voted by telephone ranged from 7 percent to 38 percent.

Internet Voting (see Table 1)

The number of Issuers offering the option to vote by the Internet grew dramatically by one-third from 1,274 Issuers in 2001 to 1,703 Issuers in 2002. The average number of voting shareholders who voted by the Internet ranged from 3 percent to 32 percent in 2002.

B. **Beneficial shareholders** (see Table 2). ADP is able to offer a uniform process for using telephone and Internet voting to all *beneficial* shareholders, regardless of issuer. Most banks and brokers have chosen ADP to act as the intermediary for delivering proxy material from the issuer to the clients of those firms. Instead of a proxy card, the shareholder receives a voting instruction form.

Telephone Voting (see Table 2)

During the 2002 proxy season, 11 percent of all *beneficial* shareholders who voted chose telephone voting. ²Savings are calculated on the cost of return postage minus the cost of the telephone or Internet votes. The costs for these electronic votes vary greatly among vendors.

Internet Voting (see Table 2)

Internet votes include institutions using Proxy Edge, an electronic service available to a small number of investors but a large number of shares. The average number of voting shareholders using internet voting rose from 10.5 percent in 2001 to 12 percent in 2002.

II. Electronic Delivery and Electronic Availability: The shareholder receives either an e-mail notice or a hard copy proxy card with instructions where to find the proxy material on the Internet. The issuer saves money on the outgoing postage, printing of all proxy materials, and return postage. To use e-delivery in either form, the issuer must satisfy two conditions. There must be a “consent” from each shareholder who wishes to access proxy material on the Internet, and the proxy material must be on the Internet at the time the hard copy proxy card or e-mail notices are mailed.

A. Registered shareholders

The number of issuers collecting consents with e-mail addresses more than doubled from 304 in 2001 to 623 in 2002 (see Table 4).

The number of issuers using e-delivery to *registered* shareholders rose slightly to 428 in 2002 after spiking to 416 in 2001 from 133 in 2000. These issuers eliminated 892,934 proxy and annual report mailing packages.

B. Beneficial shareholders (ADP results) (see Table 3)

ADP eliminated over 40 million proxy packages using e-delivery for all issuers who provided electronic proxy material and through other suppression methodology.

The projected savings on postage alone was more than \$8 million.¹ During the period of 6/1/02-5/31/02, ADP collected nearly 1.9 million new consents from shareholders, bringing its total consent database to 4 million shareholders.

The number of proxy packages eliminated directly attributed to e-delivery is limited by issuers' lack of action. To meet regulatory guidelines, issuers need to have the annual report and proxy statement on the internet when the hard copy is available. Since only 623 out of more than 14,000 possible proxy mailings had electronic material available during the 2002 proxy season, there is a substantial savings on postage expense being missed by issuers.

¹ ADP Investor Communication Services 2002 Proxy Season: Key Statistics and Performance Ratings

Conclusion:

Millions of shareholders—registered and beneficial—have expressed their desire to receive proxy material and vote through electronic means. This is a strong message for Issuers. Good shareholder service includes providing the shareholders with what they want. There is now proven evidence for at least a significant reduction in postage charges. Additionally, as issuers build their e-delivery consent base, the savings will be found in print run reductions. This study illustrates that issuers are passing up significant savings and are not offering their base the information that they are seeking. Now that electronic voting and distribution is here to stay, it is in all Issuers' best interest to investigate which method is best for them and offer it to their registered shareholder base. All issuers will need to provide their shareholders with proxy materials on the Internet to maximize the potential savings and to promote good shareholder relations.

Table 1					
Registered Shareholders -- Telephone Voting					
Respondents represent > 1700 Issuers					
	6/97-5/98	6/98-5/99	5/99-6/00	6/00-5/01	6/01-5/02
Number of Issuers offering option	200	502	1,038	1,352	1,705
Percentage (range) of voting shareholders who voted by telephone	6%-45%	11%-24%	12%-27%	7%-30%	7%-38%
Registered Shareholders -- Internet Voting					
Respondents represent > 1700 Issuers					
	6/97-5/98	6/98-5/99	5/99-6/00	6/00-5/01	6/01-5/02
Number of Issuers offering option	30	256	897	1,274	1,703
Percentage (range) of voting shareholders who voted by internet	1%-4%	5%-11%	6%-14%	4%-12%	3%-15%

Table 2					
ADP Results: Beneficial Shareholders -- Telephone Voting					
Handling > 14,000 Issuers					
	6/97-5/98	6/98-5/99	5/99-6/00	6/00-5/01	6/01-5/02
Number of Issuers offering option	all	all	all	all	all
Average number of voting shareholders who voted by telephone	6%-9%	13.5%	14.0%	14.0%	11.1%
ADP Results: Beneficial Shareholders -- Internet Voting					
Respondents represent > 14,000 Issuers					
	6/97-5/98	6/98-5/99	5/99-6/00	6/00-5/01	6/01-5/02
Number of Issuers offering option	all	all	all	all	all
Average number of voting shareholders who voted by internet	1%-4%	6.2%	10.1%	10.5%	12.0%

Table 3		
ADP Results: Beneficial Shareholders Outgoing Postage Savings from Electronic Voting 2002 Proxy Season (2/15/02-5/1/02)¹		
	Volume (millions)	Outgoing Postage Savings (millions)(a)
E-Delivery	4,557,224	\$4,329,362
Proxy Edge votes	4,184,219	\$3,975,008
All Suppressed Mailing	35,422,764	\$ 33,651,625
(a) Assumes average postage of \$.95 per item		

Table 4		
Registered Shareholders -- E-Delivery*		
	With E-mail address	Without E-Mail Address
Issuers who collected consents for future electronic delivery/availability	623	304

¹ ADP Investor Communication Services 2002 Proxy Season: Key Statistics and Performance Ratings

Methodology of Survey

The American Society of Corporate Secretaries requested Transfer Agents, Tabulators, and Vendors who provide service in this area to complete a survey for the period 6/01 to 5/02. There is some duplication in the data provided because many Transfer Agents and Tabulators outsource both telephone and Internet voting. Vendors providing voting sites sell their service to more than a single Transfer Agent or Tabulator. Every attempt has been made to identify and eliminate this duplication in reporting results. Not all parties receiving the survey returned it or completed all the questions. However, the list of participants (see Attachment 1) is comprehensive, and the results of the survey provide an adequate reflection of the industry. David Smith, president of the ASCS, requested data which was collected, verified and analyzed by Rhoda Anderson, founder and president of Rhoda Anderson Associates, a corporate governance consulting firm.

Attachment 1	
Survey Respondents	
Vendors, Tabulators, and Transfer Agents* Serving Issuers for Registered Shareholders	
1. ADP Investor Communications Services	6. EquiServe
2. Automated Voice Link	7. Georgeson Shareholder Communications
3. Bank of New York	8. Mellon Investor Services
4. Computershare Investor Services	9. Proxy Services Corporation
5. Ellen Philip Associates	10. Shareholder.com has exited this business
*Results of each Vendor were cross-checked to results of Tabulators and Transfer Agents to avoid double-counting.	

Questions about this ASCS annual report on technology?

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