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EDUCATED INVESTOR

A Quick Look at Proxy Statements

Proxy statements are one of the most valuable sources of corporate information available. The popularity of these documents soared in 1992 when the U.S. Securities and Exchange Commission (SEC) began requiring data relating a corporation's returns and stock price performance to executive compensation.

All public companies must, by law, hold an annual meeting to which they invite all those who own shares in the company. Prior to this event, each shareholder must receive a proxy statement that includes notification of the annual meeting, its date and location, information about directors and management, and details of other items upon which shareholders will vote. The proxy statement's name comes from its use by corporate management to solicit a stockholder's authorization, or "proxy," to vote on behalf of his or her shares at the annual meeting.

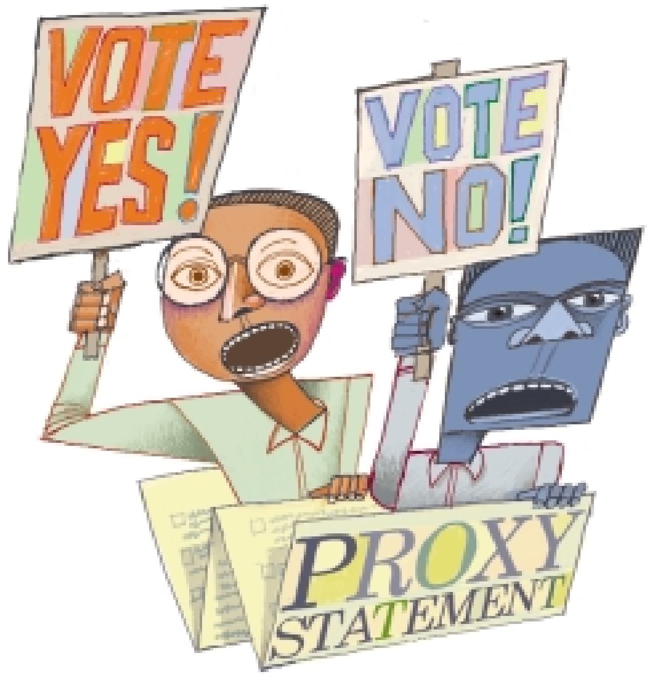
The proxy statement usually arrives with the company's annual report, which is sent to its shareholders within three months after the end of the fiscal year. If you invest in mutual funds, a proxy statement may not be sent directly to you. You should discuss with your investment advisor how he or she delivers proxy statements for your investments.

WHAT INFORMATION IS CONTAINED IN A PROXY STATEMENT?

Voting Matters Companies usually ask shareholders to vote on several standard items on a proxy statement. Ratification of the company's auditor nearly always appears. Other items include the election of all, or a portion of, the company's board of directors and the approval of increases in the number of shares authorized for issue and stock compensation plans.

Less routine matters still requiring shareholders' votes include approval for mergers or acquisitions, authorization of changes in the company's articles of incorporation or bylaws, and individual shareholder or group actions that qualify for inclusion in the proxy statement.

Compensation Information Perhaps the most sought-after information in proxy statements is the report on compensation of highly paid executives. Data on executive compensation give the inquisitive investor valuable information on how well management and investor interests are aligned and insight into the potential for future dilution of earnings per share (EPS) from the additional shares to be issues when stock options are exercised.



The SEC requires companies to show the total compensation for the five highest-paid executives — separating the amounts for salary, bonuses, "perks," and the value of stock options. This information is provided for the past three fiscal years.

For many companies, stock options have become an important form of employee, particularly executive, compensation. The SEC requires a company's board or its compensation committee to explain the rationale behind the compensation structure for executives and employees, including the basis for establishing base and variable compensation, such as stock options.* With respect to the current status of stock compensation plans, disclosure must include the number of authorized shares reserved for stock options, how options are awarded, and to whom. Any proposals for additional rewards or changes to the current plan must also be disclosed.

Proxy statements are also required to contain information about company management and directors such as family relationships, stock holdings, and loans to management or others. Information on board members includes ages and lengths of time on the board, as well as background information on their qualifications and connections to the company.

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Share Ownership The proxy statement also shows how many shares are owned by individuals, directors, and members of management. Disclosures required in the proxy statement include the names of "insiders" who own a company's stock, and individuals or entities owning more than 5 percent of the outstanding shares as well as the amounts of these holdings. Changes in share ownership can be used to assess the likelihood of a takeover.

Indirectly addressed in some proxy statements is an anti-takeover proposal, commonly known as the "poison pill." In the event of a hostile takeover, poison pills allow current shareholders to purchase stock below the current market price. Such proposals increase the cost to the purchaser and could halt the proposed takeover.

Benchmark Performance SEC regulations require companies to benchmark total shareholder returns against the returns on the "market," as measured by the S&P 500 index and a peer group of other companies in their industry. Companies may use an existing industry peer group index, or they may create one that management believes is more reflective of the industry in which the company operates.

Authorization of Additional Shares Only a shareholder vote can increase the number of shares a company may issue. While management has several reasons to propose increasing the number of shares authorized for issuance, shareholders need to understand if an increase will dilute EPS. An increase in the authorized number of shares may be needed to accommodate a planned stock split. Since all shareholders participate proportionately in stock splits, there is no potential dilution. However, a company may need additional shares to make an acquisition. Since current shareholders will not receive any of these shares, an acquisition can be dilutive.

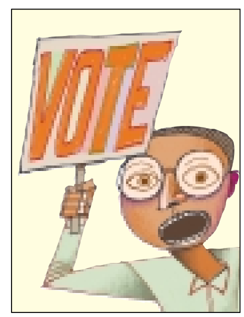
CORPORATE AND SHAREHOLDER RESPONSIBILITY

Public corporate ownership entails a substantial obligation on the part of a company to share information with its shareholders, the owners of the company. And while true control may lie in relatively few hands, it is the shareholders' — not the board's or management's — votes that give direction to the company.

Just as in a political election, shareholders need to consider the importance of voting. If an insufficient number of votes are received, the company must reschedule that year's annual meeting. While some items on proxy statements, such as the election of an auditor, may seem perfunctory, many are not. In the event of a proxy fight, each vote is crucial. Sometimes shareholders are solicited — possibly by hired consultants — to support opposing forces seeking to gain or maintain control of a company through the election of directors.

Shareholders can attempt to influence a company's direction by submitting proposals or resolutions for inclusion on the proxy statement. Each public company has requirements for how and when such submissions can be added. Often, management may try to keep shareholder proposals off a proxy statement by using the SEC's "ordinary business" rule. The SEC has the right to make the final decision on whether to include a shareholder proposal.

Currently, SEC rules give shareholders the freedom to discuss issues among themselves, decide as a larger group how to vote on certain resolutions, and decide whether to submit proxy statement proposals.*



As a shareholder, you may cast your vote by marking and mailing a ballot, via telephone, over the Internet, or in person at the annual meeting.

Conclusion Proxy statements offer investors valuable, often hard-to-find information about the management, growth, and direction of a company. As a corporate shareholder — and owner — of a company, it is important for you to read proxy statements, to understand how this information can affect you and your holdings, and to vote. ■

* Source: Kennedy Publications Investor Relations Guide. (800) 531-0007

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