

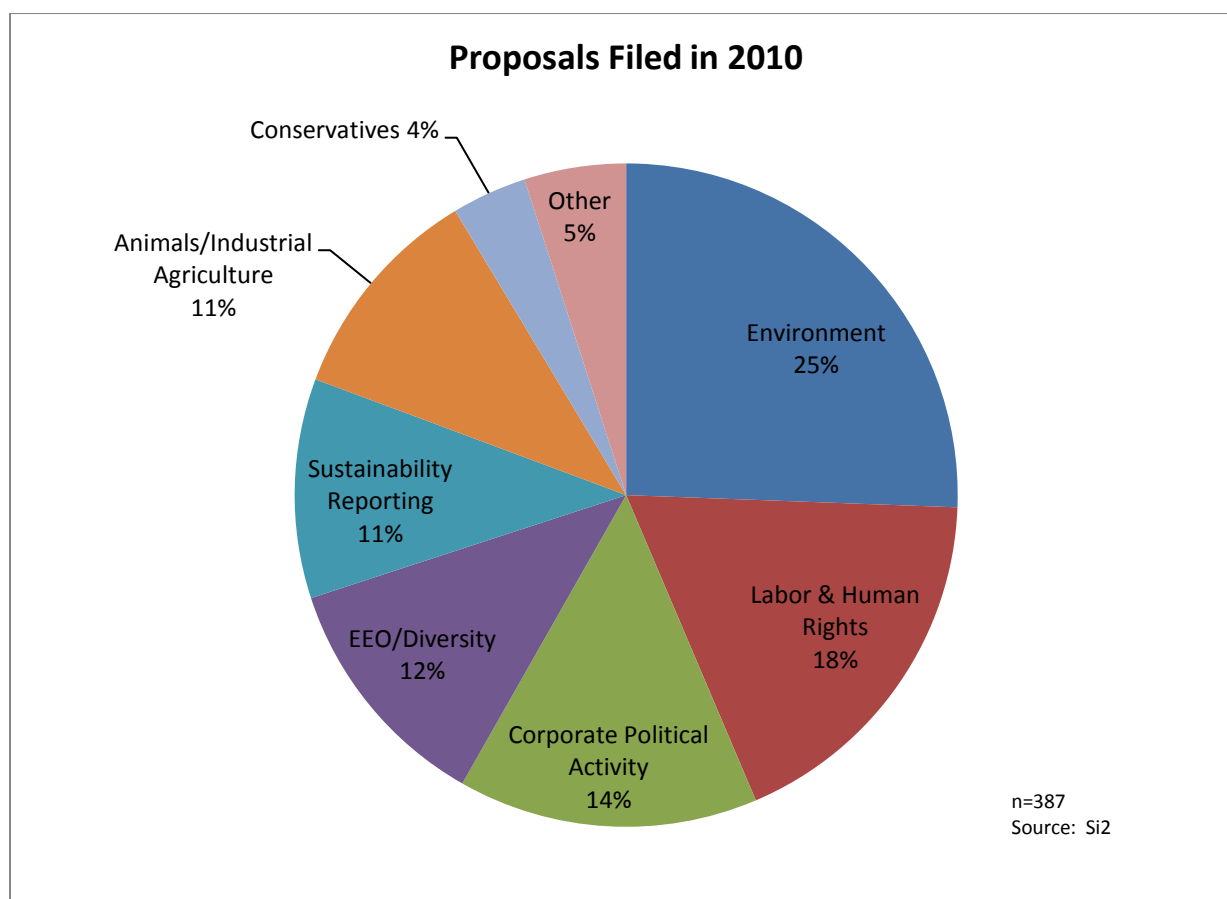
Social and Environmental Proposals in 2010

By Heidi Welsh

July 22, 2010

Executive Summary

In an unprecedented show of discontent, investors in 2010 gave more support than ever before to a wide range of social and environmental shareholder proposals. The season produced the highest votes ever recorded and an overall average of more than 19 percent. Two proposals received majority support, at **Layne Christensen** and **Massey Energy**, and 15 more received more than 40 percent of the shares cast for and against. The season was marked by record-breaking investor approval for corporate policies that protect LGBT rights, more reporting on sustainability in general and the environment in particular, and increased disclosure of political spending. Results are now available on nearly all the 387 shareholder proposals Si2 is tracking, including votes on the 166 resolutions that came to votes in the first six months of the year. A few more resolutions will be voted on in the fall, which will bring the total number up to 390 or so resolutions filed for the year.



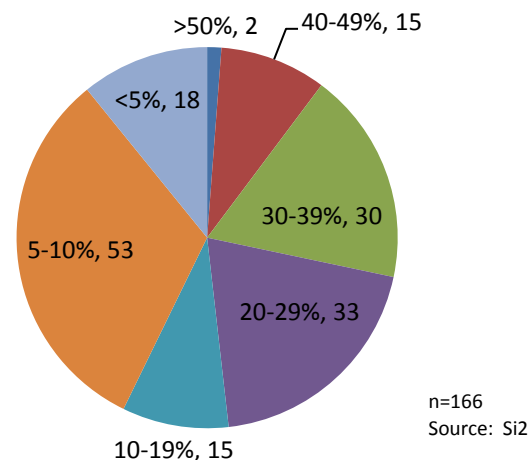
Topics: Environmental concerns continue to be the biggest single issue category, accounting for 25 percent of the total proposals filed; when broader sustainability reporting proposals which mentioned environmental issues are included, this category accounts for 35 percent of the total. They ask for corporate policy changes or disclosure on climate change, natural resource impacts including hydraulic fracturing, or toxics. A broad swath of labor and human rights issues accounted for another 18 percent of the total filed, with subjects ranging widely from pay equity to human rights reporting and the internet. Corporate political activity resolutions, which in large part asked for political spending disclosure, made up another 14 percent of the total.

Other important topics addressed were equal employment and diversity (12 percent of the total) and industrial agriculture and other animal welfare issues (11 percent). Only a couple of proposals dealt with finance and banking issues, despite the recession. Conservative groups proffered about a dozen resolutions, just 4 percent of all proposals, and continued to fare poorly as they have in the past; they asked about political and charitable giving and questioned corporate policies on climate change and illegal immigrants.

Unprecedented support: The 2010 spring proxy season is a watershed year, with the highest individual votes ever recorded and overall average support of more than 19 percent. Two proposals received majority support, at **Layne Christensen** and **Massey Energy**, and 17 received more than 40 percent of the shares cast for and against. Nearly half—80 resolutions—earned more than 20 percent support, up from only 66 proposals that did so in 2009.

Top scoring proposals: Mirroring the overall trends, half of the 17 top scorers dealt with the environment and sustainability reporting, while LGBT nondiscrimination policy requests and political contributions each had three proposals. Only one resolution on human rights was in the highest scoring group—a Mercy Investment resolution to **KBR**, which continues to deal with the legacy of controversies about its operations in Iraq and elsewhere.

Resolution Support Levels



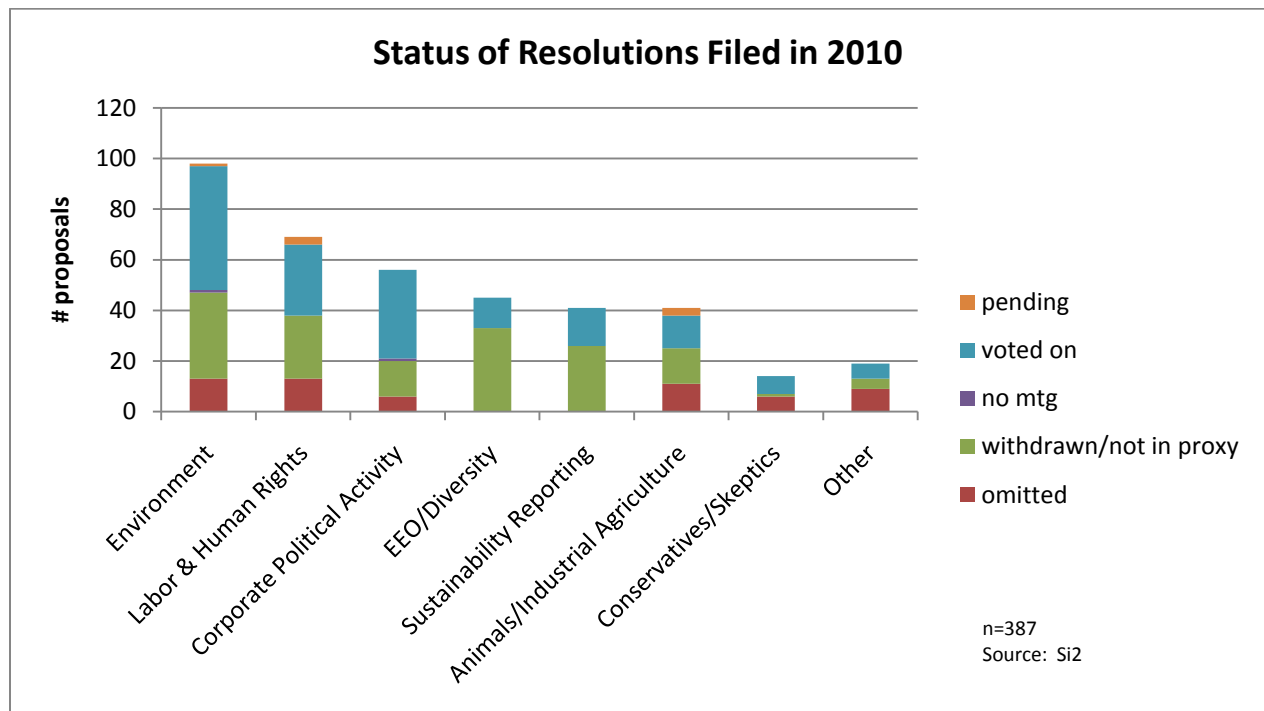
Resolutions With More than 40 Percent Support

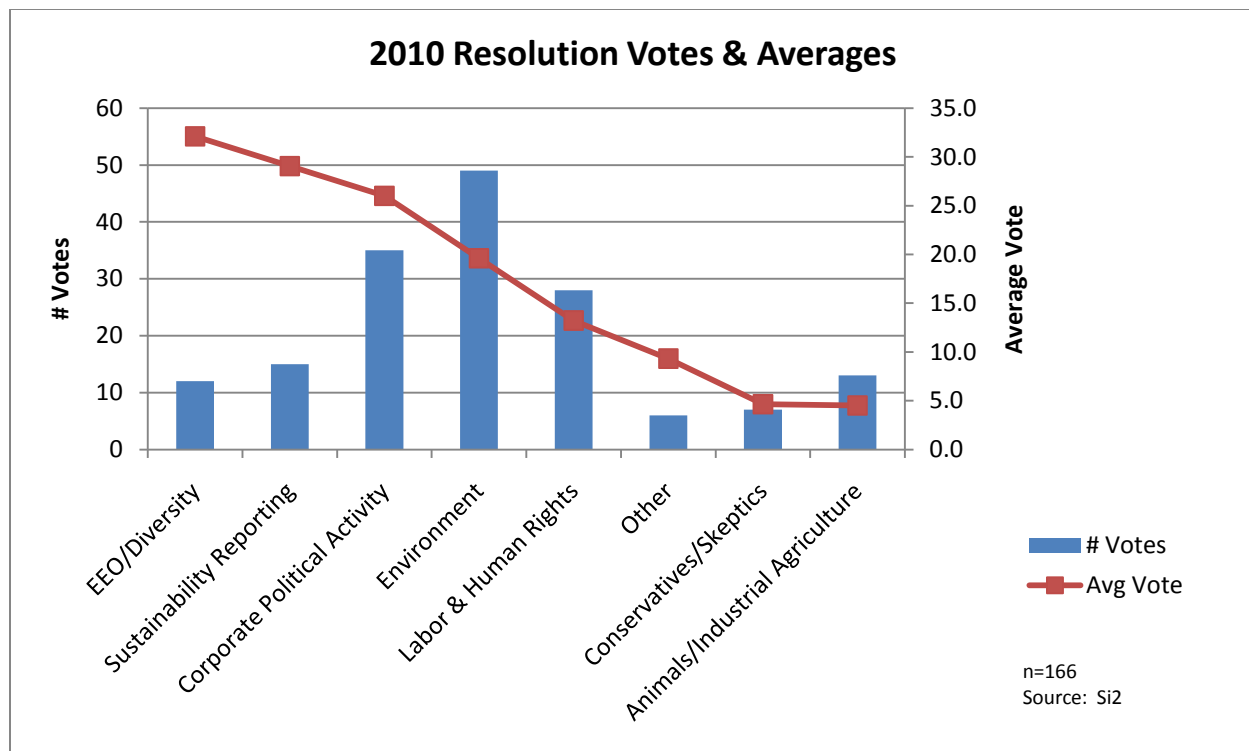
Company	Proposal	Proponent	Vote
Layne Christensen	publish sustainability report (incl. climate change)	Walden Asset Mgt.	60.3
Massey Energy	report on climate change impact assessment	NYC pension funds	53.1
Gardner Denver	adopt GLBT nondiscrimination policy	Calvert	49.1
KBR	adopt GLBT non-discrimination policy	NYC pension funds	48.7
Coventry Health Care	report on political contributions	NYC pension funds	46.0
Federal Realty Inv. Trust	publish sustainability report (incl. climate change)	LiUNA	44.6
Boston Properties	publish sustainability report (incl. climate change)	NYC pension funds	44.1
CMS Energy	report on coal combustion waste and risks	As You Sow	43.1
St. Jude Medical	publish sustainability report	Walden Asset Mgt.	42.8

Resolutions With More than 40 Percent Support			
Company	Proposal	Proponent	Vote
KBR	report on human rights policy	Mercy Investment	42.2
Express Scripts	report on political contributions	Miami Firefighters	42.0
Williams Companies	report on hydraulic fracturing	Green Century	41.8
Kroger	report on climate change impact assessment	NYC pension funds	40.7
CVS Caremark	report on political contributions	Pax World Funds	41.4
Sprint Nextel	report on political contributions	NYC pension funds	41.2
MDU Resources Group	report on coal combustion waste and risks	As You Sow	40.5
Leggett & Platt	adopt GLBT non-discrimination policy	NYC pension funds	40.4

Withdrawals and Omissions: Proposals that receive high levels of support are the most amenable to negotiated withdrawal agreements between activists and companies. Nearly three-quarters of the 45 resolutions filed on equal opportunity and board diversity were withdrawn, as were just under two-thirds of the 41 requests for sustainability reports.

Top scoring proposals also are much less likely to be omitted, while resolutions from newcomers and conservatives tend to get thrown out more frequently at the Securities and Exchange Commission (SEC) for not following the Shareholder Proposal Rule's requirements. Seven of the 16 proposals from conservatives did not make it past the SEC, and half of the sometimes wacky collection of 20 other miscellaneous requests also failed to pass muster with the SEC staff. Animal welfare groups also were less successful at the SEC than most others, with about one-quarter of their proposals getting thrown out on substantive grounds.





Season Highlights

Equal employment opportunity and diversity: Investors gave the highest average level of support to 11 resolutions that asked companies to ensure their GLBT employees' rights are protected, giving these proposals 32 percent support on average, and nearly cracking the 50 percent mark with a resolution from Calvert Investments at **Gardner Denver**. NYC funds resolutions also got 48.7 percent at **KBR** and 40.4 percent at **Leggett and Platt**. In related proposals, just one of the 16 resolutions asking companies to adopt board diversity policies went to a vote, at **Exco Resources**; the others were withdrawn, generally after accords between the proponents and companies.

Sustainability reporting: Affirming a longstanding trend, proposals that asked companies to publish sustainability reports averaged just less than 31 percent support. The proposals often had specific requests for climate change information and greenhouse gas emissions data and came to votes at 14 companies. Walden Asset Management scored a major victory and the highest vote ever recorded on a shareholder proposal opposed by management at **Layne Christensen**, which provides drilling and construction services, earning 60.3 percent support. Other high scoring proposals were at **Federal Realty Investment Trust**, where a proposal from the Laborers' International Union (LIUNA) received 44.6 percent; at **Boston Properties**, where an NYC pension fund resolution got 44.1 percent; and at **St. Jude Medical**, where a Walden proposal got 42.8 percent. Two-thirds of the 39 sustainability reporting resolutions filed were withdrawn, mostly following agreements by companies to publish the requested reports.

Political activity: More than one-quarter of investors, on average, voted in favor of resolutions that asked companies to disclose how and what they spend in the political arena. Three-quarters of the 56 resolutions in this category were coordinated by the Center for Political Accountability, but a range of additional proposals addressed corporate political activity from different angles. A few made it under the SEC radar to ask for more general lobbying disclosure, although requests about grassroots lobbying disclosure from Domini Social Investments did not pass muster at the SEC, which has long been skeptical

about lobbying resolutions. One other proposal to **American International Group** asked for shareholder approval of political spending, although this new proposal from the New York State Common Retirement Fund earned less than one percent at the company, whose stock is controlled by the U.S. government.

The highest scoring political spending proposals were at health care and telecommunications companies—46 percent at **Coventry Health Care** (from the NYC pension funds), 42 percent at **Express Scripts** (from the Miami Firefighters), 41.4 percent at **CVS Caremark** (from Pax World Funds) and 41.2 percent at **Sprint Nextel** (from the NYC funds). These types of resolutions were less likely to be withdrawn than the other top scoring categories, but about one-quarter of companies that received the proposals acceded to the requests, prompting withdrawals.

Environment: Environmental proposals accounted for the largest share of proposals filed and voted on, addressing climate change, the politically incandescent topic of hydraulic fracturing and a wide range of other concerns. The May 19 annual meeting of **Massey Energy** came just a few weeks after the Upper Big Branch mine disaster, which claimed the lives of more than two dozen miners; investors reacted by giving 53.1 percent support to a request for a climate change impact assessment. The resolution did not pass, however, because of the company's voting requirement, which is determined by its charter. Other high scorers were a resolution from As You Sow to **CMS Energy** requesting a report on coal combustion waste (43.1 percent), a Green Century Funds request for a report on hydraulic fracturing at the **Williams Companies** (41.8 percent) and another As You Sow proposal on coal waste to **MDU Resources Group** (40.5 percent).

Human and labor rights: A significant proportion of **KBR** investors remain concerned about the company's human rights record; shareholders gave a disclosure resolution on this subject from Mercy Investment 42.2 percent support. A similar resolution to **Halliburton**, which also raised concerns about incidents at the company's operations in Iraq, earned just less than 37 percent support.

Other human and labor rights proposals addressed internet privacy and net neutrality (most of these were turned back at the SEC on the grounds that they raised "ordinary business" issues) and the ways in which companies can or should ensure human rights protection in the conflict ridden areas where they do business. A new proposal about payments to host governments from Oxfam America to **Chevron** earned just 7.1 percent support, and resolutions about the human right to water earned equally modest levels of support (just under 7 percent) at **Ecolab** and **ExxonMobil**. Only a few resolutions directly addressed supplier codes of conduct, in contrast to the recent past when sweatshop concerns prompted dozens of such proposals. Investors at **Reynolds American** seemed more sanguine about child labor concerns in Malawi that were expressed by Trinity Health, giving the resolution 10.5 percent compared with 20.4 percent from **Altria** shareholders for the same proposal.

Half a dozen pay equity proposals from Interfaith Center on Corporate Responsibility members came to votes at **Goldman Sachs**, **General Electric**, **State Street**, **Allstate** and **Coventry Health Care**, but all earned less than 10 percent support. Half of these two-dozen new proposals were withdrawn after discussions with companies.

Animal and agriculture: The treatment of animals in industrial agricultural production has been a longstanding concern of animal rights activists, but investors remain wary of proposals that ask firms to alter their slaughter and egg production practices both in-house and at suppliers. Shareholders are equally skeptical of proposals about laboratory animal welfare, and gave relatively short shrift to three resolutions to **Tyson Foods** from religious investors about its production practices. Each of the animal-related resolutions received much less than 10 percent support, with an average of less than 5 percent.

Conservatives and climate change skeptics: The shareholder resolution arena remains dominated by liberal activists, and when conservative groups raise their concerns in proxy statements they get little

affirmation from investors. About half a dozen proposals questioning climate change science and corporate support for gays earned less than 5 percent support on average.

Vote Calculations

Voting results in this report are calculated as the percentage of shares cast in favor of a proposal, divided by those cast for and against. Abstentions and broker votes are not included. To pass, a resolution must meet the voting requirement defined by each company. Nearly all shareholder proposals included in this report are precatory and not binding on a company even if they pass.

Si2 Publications

Si2 briefing papers in 2010 covered the following topics:

- Corporate Political Activity
- Environment: Climate Change
- Environment: Natural Resource Management
- Equal Employment and Diversity
- Human Rights
- Labor Rights
- Sustainability Reporting
- Industrial Agriculture

Si2 also published resolution- and company-specific Action Reports for proposals at companies held by its members, a consortium of the ten largest-endowed U.S. colleges and universities and TIAA-CREF.

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Si2 is grateful to all the shareholder proponents who provided detailed information about their resolutions and the outcomes of their campaigns. This report would not have been possible without their generous cooperation.

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Rule 14a-8 Grounds for Omission of Shareholder Resolutions

Technical Rules

- b Proponent did not provide sufficient proof of stock ownership.
- c Proposal constitutes more than one resolution.
- d Proposal exceeds 500 words.
- e-2 Proposal was filed past the submission deadline.
- h-3 Proposal was submitted but not properly presented within the last two years.

Substantive Rules

- i-2 Would be contrary to state, federal or foreign laws if implemented.
- i-3 Contains false or misleading statements.
- i-4 Relates to personal claims, grievances or interests.
- i-5 Is not significantly related to the company's business (less than 5 percent of total assets and less than 5 percent of net earnings & gross sales.)
- i-6 Company lacks the power or authority to implement.
- i-7 Deals with a matter relating to the company's ordinary business operations.
- i-8 Relates to nomination or election to the board of directors.
- i-9 Conflicts with a management proposal.
- i-10 Has been substantially implemented.
- i-11 Duplicates another proposal that is substantially the same.
- i-12 Is substantially the same as a previous proposal (submitted in the last five years) that did not receive enough support for resubmission. Resolutions must receive 3 percent the first year, percent the second year, and 10 percent the third year and beyond to be resubmitted.
- i-13 Relates to specific amounts of cash or stock dividends.