

Proxy Statement Voting Disclosures – Batter Up!

Spring Training is Finally Here

Have you ever tried to explain baseball to someone who has never seen the game before? The good news is that explaining proxy voting standards in a proxy statement for an annual shareholder meeting is easier than that. There are only three things to explain:

- How will the company determine whether enough shares are represented at the meeting to vote on the matters to be presented at the meeting?
- How many shares must vote to approve each of these matters?
- How will the company count votes, and how will abstentions (and “withhold” votes in the case of plurality voting for directors) and broker non-votes be counted?

The bad news is that in many cases each of the matters presented for shareholder action at an annual meeting are treated differently from the others, and trouble is likely to follow if you explain them incorrectly or insufficiently. This memorandum provides an overview of proxy voting standards along with suggested disclosure, with a nod or two to the grand old game along the way. The most important point is that accurate disclosure requires review of the company’s charter and bylaws and applicable state corporate law as well as compliance with Item 21 of Schedule 14A.

This discussion is primarily focused on the quorum and voting standards disclosure that would be included in a proxy statement that satisfies the requirements of Schedule 14A and the related proxy rules promulgated under Section 14(a) of the Securities Exchange Act of 1934 (a “Proxy Statement”) for an annual meeting at which shareholders will vote on the election of directors, ratification of auditor selection, a say-on-pay resolution, a say-on-frequency resolution, an equity compensation plan, and a charter amendment. Matters such as approval of a business combination transaction, a shareholder proposal or other matters may be subject to different quorum and required vote provisions and may therefore require different disclosure. In addition, this memorandum assumes that the annual meeting is not the subject of a contested solicitation.

It is a truism worth repeating that there is no U.S. federal corporate law. State corporate laws continue to prescribe substantive corporate mechanics and governance requirements, supplemented in limited but important areas by listing standards adopted by U.S. national stock exchanges in response to Congressional mandates and Securities and Exchange Commission (“SEC”) rules and regulations. As a result, this discussion is primarily framed in the context of the Delaware General Corporation Law. State corporate laws vary significantly, so the quorum and voting standards, and related disclosure, for companies organized in states such as California, Maryland and New York will likewise vary significantly from those discussed here.

You Can't Tell the Players Without the Program – Review the Charter, Bylaws and Statute

At the ballpark, having the program can enhance your enjoyment of the game. When drafting or reviewing a Proxy Statement, having the company's organizational documents, state corporate law provisions and, to the extent applicable, stock exchange listing standards, is mandatory, not optional. Among other things, the proliferation of director majority voting requirements, which vary significantly in their provisions not just from state to state but from one company to another, means that review of the provisions that apply to a specific company is essential when reviewing a Proxy Statement.

You should note that elements of director majority voting provisions, such as how resignations will be handled if directors do not receive the minimum required vote, are sometimes part of corporate governance documents such as the nominating committee charter or corporate governance guidelines. In addition, as noted above, state corporate laws vary considerably in many respects, such as minimum quorum and voting requirements, whether these requirements must be contained in a specific company organizational document, how these requirements may be amended, and the extent to which a company has flexibility to adopt different requirements.

Can we Even Field a Team? – Quorum Requirements

If you don't have nine players, you can't field a baseball team. The quorum requirement represents a similar concept for shareholder meetings.

A quorum is the number of shares present at a meeting, in person or by proxy, that is necessary to transact business. In general, the minimum number of shares required to constitute a quorum is prescribed by state law. In Delaware and many other states, the default quorum is a simple majority of the shares entitled to vote, although the charter or bylaws may set a higher or lower threshold for a quorum, subject to stock exchange and other legal requirements. Delaware law permits a company to adopt a quorum as low as one-third of shares entitled to vote. The Nasdaq stock exchange requires the same 33-1/3% minimum quorum. In contrast, the New York Stock Exchange favors the default Delaware quorum requirement, stating that it will give "careful consideration to provisions fixing any proportion less than a majority of outstanding shares as the quorum for shareholders' meetings."

In any case, the Proxy Statement needs to articulate what will constitute a quorum. Below is an example:

The holders of a majority of the shares of our common stock issued, outstanding and entitled to vote on any matter shall constitute a quorum for the Annual Meeting. There were 20,000,000 shares of our common stock outstanding and entitled to vote on the record date. Therefore, a quorum will be present if 10,000,001 shares of our common stock are present in person or represented by executed proxies timely received by us at the Annual Meeting. Shares present virtually during the Annual Meeting will be considered shares of common stock represented in person at the meeting.

In general, shares that vote "abstain" on matters subject to a majority voting standard, and "withhold" votes on director elections subject to a plurality voting standard, will be counted as present at the meeting for purposes of determining whether a quorum exists for a meeting. "Broker non-votes" also affect whether a quorum is present, as discussed in the next section.

Is this Sort of Like a Designated Hitter? – Broker Non-Votes and Broker Discretionary Voting

In baseball, a designated hitter typically does not play in the field when a team is on defense. Instead, such person only comes up to bat when it is the designated hitter's turn (typically in place of the pitcher).

In most public companies, the vast majority of a company's shareholders hold their shares through brokerage firms or other intermediaries, rather than directly. These are frequently called beneficial owners. Unlike record owners, beneficial owners are not entitled to receive notice of shareholder meetings directly from the company, nor are they entitled to vote directly.

When a company gives notice of its annual meeting to shareholders and solicits proxies to vote shares at the annual meeting, the brokerage firms and other intermediaries that hold company shares on behalf of beneficial owners must step up to the plate, so to speak, to arrange for beneficial owners to receive notice of the meeting and provide voting instructions so that the shares they own beneficially can be voted.

If the beneficial owners submit their voting instructions (by internet, telephone or paper), the brokerage firm will arrange to have those voted in accordance with those instructions. When beneficial owners do not return voting instructions, the result is "broker non-votes" because the broker cannot vote those shares. Sometimes these broker non-votes involve all matters up for vote because the brokerage firm never heard back from its clients or the client submitted a blank form. Sometimes beneficial owners provide affirmative voting instructions on some items but leave others blank.

Under New York Stock Exchange rules, brokerage firms that have not received voting instructions from the beneficial holders are allowed to vote their clients' shares without having received voting instructions only on "routine" matters. These rules apply to all NYSE "member organizations" – which includes broker-dealers that are FINRA members – and therefore affect how NYSE member organizations may vote shares of companies listed on *any* stock exchange, including Nasdaq-listed companies. The ability of a brokerage firm to vote shares on routine matters for which they did not receive instructions is referred to as "broker discretionary voting." In practice today, the only matter that is voted on regularly at annual meetings that is "routine" under NYSE rules is ratification of the selection of auditors. There are still a few other matters that are considered "routine", such as a charter amendment to increase the number of shares of authorized common stock. Brokers are not permitted to cast votes on non-routine matters, also referred to as non-discretionary matters, such as election of directors, approval of "say-on-pay" or "say-on-frequency" resolutions, compensation plans, and certain charter amendments.

Broker non-votes that are cast on a routine matter through broker discretionary voting are generally treated as shares represented in person or by proxy at the meeting with respect to that matter and are therefore counted as present at the annual meeting for purposes of achieving a quorum. This can be an important way for companies with a diffuse shareholder base to achieve a quorum that might be difficult to achieve if there are no discretionary matters on the annual meeting agenda.

Thus, including ratification of the selection of the company's independent auditor at an annual meeting matter is an important "best practice" when planning the meeting. If shareholders will vote on ratification of the auditor selection, the Proxy Statement quorum disclosure above would include the

following: “Abstentions and broker non-votes will be counted towards the quorum requirement.” Companies should be aware that at least one major broker no longer exercises broker discretionary voting powers even when expressly permitted, which can make it more difficult for a company to achieve the quorum necessary for the meeting to be held.

If a company has adopted majority voting for director elections, the presence of broker non-vote shares can also affect director elections.

Back to baseball, imagine how different baseball games would be if the designated hitter were only allowed to bat in routine situations – that is, when no one is in scoring position and the game isn’t all that consequential.

Set the Strike Zone – Voting Standards

Clear and accurate disclosure about the voting standard by which proposals are approved, the types of votes that may be cast and the impact of those different votes is fundamental to good Proxy Statement disclosure. State corporate laws typically provide two or more alternative standards for the shareholder vote required for action at a meeting, and generally permit companies to adopt additional alternative standards.

The examples below illustrate how different voting standards can apply. In each case, a quorum is assumed to be present, “shares” refers to shares entitled to vote on the matter, and it is assumed that no class of the company’s securities is entitled to a separate vote on the matter. The information on the voting standards outside the director election context – as applicable to the company in question based on its governing law and organizational documents – should be reflected in the Proxy Statement in either narrative form or a chart. Note that majority and plurality voting for directors and considerations for say-on-pay and say-on-frequency resolutions are discussed in separate sections below.

Majority Voting for Matters Other Than Director Elections

In baseball, there are basically three ways to strike out – looking, swinging, or on a foul tip caught by the catcher. In corporate votes, there are generally three ways to conduct majority voting – majority of votes cast (in person or by proxy), majority of votes present (in person or by proxy) and entitled to vote, and majority of votes outstanding. Which approach applies depends on state corporate law and the company’s governing documents (certificate/articles of incorporation and bylaws). For Delaware corporations, on matters other than election of directors, the default rule is that a majority of votes present and entitled to vote is the operative standard. The majority of votes cast standard is the default approach for New York corporations. In all cases, the Proxy Statement disclosure should clearly describe which majority voting standard applies and how it operates, including the impact of abstentions and broker non-votes.

Majority Voting Standards for Matters Other Than Director Elections				
	Voting Options	What is Needed for Matter to Pass	Impact of Abstentions	Impact of Broker Non-Votes
Majority of votes cast	FOR AGAINST ABSTAIN	More FOR votes than AGAINST votes	None	None <i>[Confirm that state law and governing law do not treat as "votes cast"]</i>
Majority of votes present and entitled to vote	FOR AGAINST ABSTAIN	More FOR votes than votes AGAINST plus ABSTENTIONS	Count as AGAINST vote	None <i>[Not entitled to vote; exception: ratification of auditor appointment, which generally permits broker non-votes to be counted as present for quorum]</i>
Majority of outstanding shares	FOR AGAINST ABSTAIN	More than 50% of outstanding shares on the record date must vote FOR	Count as AGAINST vote	Count as AGAINST vote <i>[Broker non-votes are equivalent to "against" because approval requires majority of all outstanding shares]</i>

To elaborate on the impact of broker non-votes on the first two standards above, if a proposal is non-routine (also called non-discretionary) and the broker has not received instruction from the beneficial owner, voting power on that proposal has been withheld. Those shares are not deemed present and entitled to vote and cannot be cast and therefore are not counted when determining whether a majority of the required shares have approved the matter.

Note that Section 312.07 of the New York Stock Exchange Listed Company Manual provides as follows:

Where shareholder approval is a prerequisite to the listing of any additional or new securities of a listed company, or where any matter requires shareholder approval, the minimum vote which will constitute shareholder approval for such purposes is defined as approval by a majority of votes cast on a proposal in a proxy bearing on the particular matter. For purposes of the foregoing, a company must calculate the votes cast in accordance with its governing documents and any applicable state law.

Amendments to NYSE rules in 2021 and 2013 eliminated (1) an interpretive position that required listed companies to include abstentions in the number of votes cast on that matter, resulting in abstentions being treated as votes against the matter for purposes of NYSE shareholder approval requirements under Section 312.07 and (2) a requirement that the total votes cast on the proposal must represent more than 50% of all securities entitled to vote on the proposal. Any disclosure that refers to either of these requirements should be revised to reflect current NYSE requirements.

Director Elections – Majority or Plurality Voting

Director elections will have either a majority vote standard or a plurality vote standard. Under Delaware law, a plurality vote is the default requirement; however, it can be varied by a corporation’s organizational documents. Note that election of directors is considered a non-routine/non-discretionary matter so broker non-votes may affect calculation of the vote if the corporation has adopted a majority voting standard for director elections, depending on which majority standard applies.

Plurality Voting in Director Elections

In some youth baseball leagues, every kid gets a trophy just for showing up. Standard plurality voting in uncontested director elections is a bit like that. With plurality voting, the nominees who receive the most FOR votes are elected to the board until all board seats are filled. In an uncontested election, where the number of nominees is the same as the number of available board seats, every nominee is elected upon receiving at least one FOR vote. Almost all companies with plurality voting give shareholders an option on the ballot to “withhold” authority for the proxy holders to vote their shares. There should be no AGAINST or ABSTAIN options on the proxy card when plurality voting is the applicable standard.

The chart below summarizes the plurality voting standard without any resignation policy:

Plurality Voting in Uncontested Director Elections			
Voting Options	What is Needed for a Director to be Elected	Impact of WITHHOLD	Impact of Broker Non-Votes
FOR WITHHOLD	At least one FOR vote. Nominees receiving the highest number of “for” votes are elected. If nominees are unopposed, election requires only a single vote or more.	None*	None

* Confirm that the company has not adopted a director resignation policy that is triggered by failure to receive a specified number (*i.e.*, a majority of some kind) of votes “for.”

Effective Proxy Statement disclosure could include a chart similar to the above; however, a narrative disclosure such as the following is also common:

Under our by-laws, directors are elected by plurality vote. This means that the [INSERT NUMBER OF DIRECTOR NOMINEES STANDING FOR ELECTION] director nominees receiving the highest number of affirmative votes will be elected as directors. You may vote for all the director nominees, withhold authority to vote your shares for all the director nominees or withhold authority to vote your shares with respect to any one or more of the director nominees. Withholding authority to vote your shares with respect to one or more director nominees will have no effect on the election of those nominees. Broker non-votes are not considered votes cast and will have no effect on the election of the nominees.

In the plurality voting context, withholding authority to vote their shares allows shareholders to communicate their dissatisfaction with a given nominee, but it has no legal effect on the outcome of the election.

Some companies have adopted a plurality voting standard for the election of directors but added a resignation policy for those nominees failing to receive a majority of votes cast. This is often referred to as “plurality-plus” voting and is an alternative to actual majority voting for director elections. Under a plurality-plus voting requirement, nominees that receive a plurality of shareholder votes, but not a majority of votes cast, are legally elected; however, they must tender their resignation to the board, which typically has discretionary power to accept or reject the resignation. Below is sample plurality-plus disclosure:

Directors shall be elected by a plurality of the votes cast. If any nominee for director receives a greater number of votes “withheld” than votes “for” such election, our by-laws require such individual to tender his or her resignation to the Board [DESCRIBE TIME FRAME] after certification of the vote.

Majority Voting in Director Elections

In recent years, many companies have shifted from the plurality voting standard to majority voting in uncontested director elections. The following table summarizes the application of the different majority voting standards (which are similar to majority voting on other matters, subject to differences contained in the company’s organizational documents). Because majority voting in director elections is subject to significant variations, any disclosure must be based on review of the specific company’s organizational documents and applicable law.

Different Majority Voting Standards in Uncontested Director Elections				
	Voting Options	What is Needed for a Director to be Elected	Impact of Abstentions	Impact of Broker Non-Votes
Majority of votes present and entitled to vote	FOR AGAINST ABSTAIN	More FOR votes than votes AGAINST plus ABSTENTIONS	Count as AGAINST vote	None
Majority of votes cast	FOR AGAINST ABSTAIN	More FOR votes than AGAINST votes	None	None
Majority of votes outstanding	FOR AGAINST ABSTAIN	More than 50% of outstanding shares on the record date must vote FOR	Count as AGAINST vote	Count as AGAINST vote

Information on the applicable voting standard in uncontested director elections should be reflected in the Proxy Statement in either narrative form or a chart.

As discussed in the chart above, in an uncontested director election under a majority voting standard, nominees must generally receive more FOR votes than AGAINST votes to be elected. Companies with majority voting in uncontested director elections usually couple that standard with a requirement that

directors who did not receive a majority vote must tender their resignation or have previously tendered a resignation. The reason for this resignation mechanic is because under Delaware law directors are elected until their successors are duly elected and qualified; so, even if the director receives less than a majority of the votes, he or she “holds over” under Delaware law and is still a director. On the other hand, this resignation mechanic is not required for a nominee for director who is not currently serving on the Board as that person would simply not get elected if they did not receive more FOR votes than AGAINST votes. Under the terms of the resignation requirement, the board typically retains ultimate control over whether the individual departs from the board or stays; in the latter case, the board would reject the resignation and allow the incumbent director to continue in office despite the opposition voiced by shareholders, a potentially quite unpopular result. Thinking of baseball once again, this situation might remind you of Grady Little’s decision not to pull Pedro Martinez in the seventh game of the 2003 American League Championship Series against the New York Yankees. Some investor groups have advocated for “consequential majority voting” where a resignation upon failure to receive more FOR than AGAINST votes would be automatic, but that type of majority voting has not gained a lot of traction.

It is appropriate to include disclosure in the Proxy Statement about how the resignation policy works; such as the below:

Under our majority vote standard for the election of directors, the number of shares voted “For” a nominee must exceed the number of shares voted “Against” that nominee. If an incumbent director nominee receives more “Against” votes than “For” votes in an uncontested election, the affected director shall submit to the Board his or her offer to resign from the Board. The Governance Committee will promptly consider the resignation offer submitted by such incumbent director and recommend to the Board the action to be taken with respect to such resignation offer. After the Board’s determination, we will promptly publicly disclose in a document filed or furnished with the SEC the Board’s decision regarding the action to be taken with respect to such incumbent director’s resignation. If the Board’s decision is to not accept the resignation, such disclosure will include the reasons for not accepting the resignation. If the director’s resignation is accepted, then the Board may fill the resulting vacancy in accordance with our bylaws.

That .200 Hitter is Paid How Much? – Say-on-Pay and Say-on-Frequency Votes

SEC rules require public companies to hold a vote at least every three years on executive compensation as disclosed in the company’s Proxy Statement (“say-on-pay”), and to hold a vote at least every six years on the frequency of the say-on-pay votes (“say-on-frequency”). Imagine if fans could vote on player or manager salaries!

These votes are in general treated the same as any other matter that is subject to shareholder approval, but SEC rules and interpretive guidance require a few differences, which are briefly discussed below. This discussion does not include topics such as transition issues for emerging growth companies or Form 8-K reporting requirements.

SEC rules do not prescribe the voting standard for say-on-pay and say-on-frequency votes. Companies should determine the applicable voting standard under their charter, bylaws and applicable state law. SEC rules do require disclosure about the required vote and the treatment of abstentions and broker

non-votes under Item 21 of Schedule 14A. For say-on-frequency votes, Rule 14a-21(b) under the Securities Exchange Act of 1934 requires companies to offer every one, two or three years and “abstain” as choices, and Rule 14a-4 requires companies to provide the same choices on proxy cards.

Slugging Percentage – Dual Class Shares

For decades, professional baseball hitters were measured by their batting average – how often they got a hit when coming up to bat. In more recent years, the concept of slugging percentage and OPS (on base plus slugging percentage) emerged for many as a more effective way for some to judge the true power of a hitter.

For corporations, it’s important to properly discuss in the Proxy Statement how much voting power different classes of shares have. Most companies have only one class of voting stock outstanding – common stock. Shares of common stock will be entitled to one vote per share and the Proxy Statement needs to say that. Some companies have issued two classes of common stock, sometimes referred to as a “dual-class” arrangement, each with different voting rights. One class of common stock is entitled to one vote per share while the other is more powerful – each share is entitled to ten votes per share, for example. The Proxy Statement should carefully articulate the different voting rights of each class of share. See example below:

Each share of our class A common stock, par value \$.01 per share, outstanding on the record date is entitled to one vote on each matter submitted, and each share of our class B common stock, par value \$.01 per share, outstanding on the record date is entitled to ten votes on each matter submitted. As of the close of business on the record date, there were outstanding and entitled to vote 15,000,000 shares of class A common stock and 5,000,000 shares of class B common stock.

The Game Day Program – Sample Proxy Statement Disclosure

We will wrap up our discussion with two sample disclosure approaches – a Q&A format and a chart to help in the drafting or review of a Proxy Statement.

Ask the Manager

Many companies present a series of questions and answers in the Proxy Statement to cover logistical issues and voting standards. The examples below must be compared to a company’s charter and bylaws and applicable state law because variations are possible.

Q: How many votes are needed to elect the directors?

A plurality voting standard applies for the election of our directors. Therefore, the [INSERT NUMBER OF DIRECTOR NOMINEES STANDING FOR ELECTION] director nominees receiving the most “For” votes from the holders of shares present at the meeting or represented by proxy and entitled to vote on the election of directors will be elected. Withholding authority to vote your shares with respect to one or more director nominees will have no effect on the election of those nominees. Broker non-votes are not considered votes cast and will also have no effect on the election of the nominees.

OR

Under our majority voting standard for the election of directors, the number of shares voted “For” a nominee must exceed the number of shares voted “Against” that nominee. If an incumbent director nominee receives more “Against” votes than “For” votes in an uncontested election, the affected director shall submit to the Board his or her offer to resign from the Board. [IF MAJORITY OF SHARES PRESENT AND ENTITLED TO VOTE IS THE STANDARD – Abstentions will have the same effect as a vote against the nominees and broker non-votes will have no effect on the election of the nominees.] [IF MAJORITY OF VOTES CAST IS THE STANDARD - Abstentions and broker non-votes will have no effect on the election of the nominees.] The [Governance Committee] will promptly consider the resignation offer submitted by this director and recommend to the Board the action to be taken with respect to such resignation offer. After the Board’s determination, we will promptly publicly disclose in a document filed or furnished with the SEC the Board’s decision regarding the action to be taken with respect to that director’s resignation. If the Board determines not to accept the resignation, this disclosure will include the reasons for not accepting the resignation. If the director’s resignation is accepted, then the Board may fill the resulting vacancy in accordance with our bylaws.

Q: How many votes are required to approve the amendment of the equity plan?

[IF MAJORITY OF VOTES CAST IS THE STANDARD] To be approved, the proposed amendment to the equity plan must receive “For” votes from a majority of the votes cast by the holders of all of the shares of common stock present or represented by proxy at the meeting and voting on such proposal. Abstentions and broker non-votes will have no effect on this proposal.

[IF MAJORITY OF SHARES PRESENT AND ENTITLED TO VOTE IS THE STANDARD] To be approved, the proposed amendment to the equity plan must receive the affirmative vote of the holders of a majority of shares present in person or represented by proxy and entitled to vote on the matter. Abstentions will have the same effect as a vote “against” the proposal, and broker non-votes will have no effect on the vote for this proposal.

Q: How many votes are required to amend the Certificate of Incorporation to declassify the board?

To be approved, the proposed amendment to our Certificate of Incorporation must receive “For” votes from the holders of common stock representing [a majority] [at least seventy-five (75%)] of the votes that all the shareholders would be entitled to cast in any annual election of directors or class of directors. Abstentions and broker non-votes will have the effect of a vote “against” this proposal.

Root, Root, Root for the Home Team

It is often helpful and effective disclosure to combine the applicable vote standards with disclosure of the Board’s recommended vote in a chart. Below is one company’s approach. This example represents the requirements of one company’s organizational documents and applicable state law in which a majority of shares present and entitled to vote standard applied. As noted elsewhere, each company’s disclosure must be compared to the specific company’s charter and bylaws and applicable state law requirements.

Voting Matters and Board Recommendations

A summary of our annual meeting proposals and applicable vote standards is set forth below.

Matter	Voting Options	Board Recommends	Vote Required for Approval	Effect of Withheld Votes or Abstentions	Effect of Broker Non-Votes
(Plurality) Election of Directors	FOR WITHHOLD	FOR each nominee	Plurality of shares present and voting, which means that the [insert number] of nominees who receive the highest number of shares voted “for” their election will be elected	None	None
Amendment to Equity Incentive Plan	FOR AGAINST ABSTAIN	FOR	Majority of shares present and entitled to vote	Against	None
Advisory Vote on Executive Compensation	FOR AGAINST ABSTAIN	FOR	Majority of shares present and entitled to vote	Against	None
Ratification of Auditors	FOR AGAINST ABSTAIN	FOR	Majority of shares present and entitled to vote	Against	None
Amendment to Charter	FOR AGAINST ABSTAIN	FOR	Majority of shares outstanding	Against	Against
<i>Note: if this company had adopted majority voting for director elections, the first row might look as follows:</i>					
(Majority) Election of Directors	FOR AGAINST ABSTAIN	FOR each nominee	Majority of shares present and entitled to vote	Against	None