

MAYER • BROWN

Preparing for the 2017 Proxy and Annual Reporting Season

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Introduction and Overview

- Speakers
 - Mike Hermsen
 - Laura Richman
 - Harry Beaudry
 - Jen Carlson

Agenda

- Dodd-Frank compensation-related rulemaking
- Say-on-pay and its impact on proxy disclosure and shareholder engagement
- Say-when-on-pay
- Proxy access and other shareholder proposals
- Other disclosure issues
- Director and officer questionnaires
- Other annual meeting and annual reporting matters

Pay Ratio Disclosure Rule

- Section 953(b) of the Dodd-Frank Act
- Proposed in 2013; adopted on August 5, 2015
- Disclosure generally required for the first fiscal year commencing on or after January 1, 2017
 - Required in proxy statements for the 2018 annual meeting
 - Include in any filing that requires executive compensation disclosure
- *Exempt companies*: emerging growth companies, smaller reporting companies, foreign private issuers, MJDS filers, registered investment companies

Pay Ratio Disclosure Rule: Overview

- Pay Ratio Disclosure, new Item 402(u) of Regulation S-K:
 - Median annual total compensation of all company employees (except CEO);
 - Annual total compensation of CEO; and
 - The ratio of these two amounts; and
 - Brief non-technical overview of the methodology used to identify the median employee and his or her compensation

Pay Ratio Disclosure Rule: Employees Covered

- “Employee” is an individual employed by the company or any of its consolidated subsidiaries:
 - U.S. employees
 - Non-U.S. employees with two exemptions
 - Full-time, part-time, seasonal or temporary employees
 - NOT independent contractors or “leased” workers
- Median employee can be determined on any day within the last three months of the fiscal year

Pay Ratio Disclosure Rule: Non-U.S. Employee Data Privacy Exemption

- May exclude employees in jurisdictions with data privacy laws that make the company unable to comply with the rule without violating those laws
- The company must exercise reasonable efforts to obtain or process the information including, at a minimum:
 - Seeking or using an exemption; and
 - Obtaining a legal opinion if no exemption granted (include as an exhibit)
- If the company uses an exemption:
 - List excluded jurisdictions and identify the specific data privacy law;
 - Exclude all non-U.S. employees in the jurisdiction and list the approximate number of employees for each excluded jurisdiction; and
 - Explain how complying with the rule violates such law and disclose the company's efforts to seek or use an exemption

Pay Ratio Disclosure Rule: Non-U.S. Employee *de minimis* Exemption

- If a company's non-U.S. employees equal 5% or less of the company's total employees, the company may exclude **all** non-U.S. employees
or
- If a company's non-U.S. employees exceed 5% of the company's total employees, the company may exclude **up to 5%** of its total employees who are non-U.S. employees
- A company using the *de minimis* exemption must disclose:
 - The jurisdiction(s) involved;
 - Approximate number of employees excluded in each jurisdiction;
 - Total number of U.S. and non-U.S. employees irrespective of the exemption (data privacy or *de minimis*); and
 - Total number of U.S. and non-U.S. employees used for the *de minimis* calculation
- Employees excluded pursuant to the data privacy exemption count toward the 5% *de minimis* exemption

Pay Ratio Disclosure Rule: The Median Employee (cont'd)

- Identify the “median employee” using a method based on the company’s own facts and circumstances
 - Based on any consistently used compensation measure
 - A company may identify the median employee based on total compensation of the full employee population or may use a statistical sample or another reasonable method
- Disclose the date used to identify the median employee
- Identify once every three years, unless a change in employee population or compensation arrangements would result in a significant change to the pay ratio disclosure

Pay Ratio Disclosure Rule: The Median Employee

- After identification, median employee total compensation is generally calculated using the summary compensation table requirements
- Reasonable estimates
- Certain adjustments allowed
 - Annualize compensation for all permanent employees
 - Cost-of-living adjustment
 - Present median employee's total compensation and pay ratio without the adjustments for context

Pay Ratio Disclosure Rule: Transition Rules

- **Exempt company** (e.g., EGCs, SRCs, etc.)
 - First fiscal year in which it exits exempt status but not before January 1, 2017
- **IPO company**
 - First fiscal year commencing on or after January 1, 2017 but not in an IPO prospectus or certain Form 10 registration statements
- **Business combinations/acquisitions**
 - Acquired employees may be omitted from the identification of the median employee for the fiscal year in which the transaction became effective
 - Company must disclose the approximate number of employees omitted

Pay Ratio Disclosure Rule: Practical Considerations

- **Liability:** Pay ratio disclosures will be considered “filed,” not “furnished,” and therefore will be subject to certifications by the CEO and CFO and to potential securities law liabilities
- **2018 compliance date is not that far away**
 - Form a team (internal and external advisors)
 - Assess internal data systems
 - Develop and test a methodology
 - Address any desired compensation changes

Clawback Proposal

- Section 954 of the Dodd-Frank Act
- SEC proposed rules on July 1, 2015
- Comment period ended on September 14, 2015
- The proposal directs the stock exchanges to establish listing standards that prohibit the listing of any security of a company that does not adopt and implement a written policy requiring the recovery of certain incentive-based executive compensation

Clawback Proposal: Definitions

- Proposed Rule 10D-1 defines ‘incentive-based compensation’ to mean any compensation that is granted, earned or vested based wholly or in part on the attainment of any financial reporting measure
- The proposed rule defines ‘financial reporting measure’ to mean a measure that is determined and presented in accordance with accounting principles used in preparing the company’s financial statements, any measure derived wholly or in part from such financial statements (including a non-GAAP measure), stock price and total shareholder return

Clawback Proposal: Recovery Amount

- The recovery would be the amount of incentive compensation that is later shown to have been paid in error, based on an accounting restatement that is necessary to correct a material error
 - To be based on the amount by which the incentive-based compensation that the executive officer received exceeds the amount the officer would have received had the incentive-based compensation been calculated following the accounting restatement
- Special situations
 - Award based on stock price or total shareholder return
 - Awards paid from a bonus pool

Clawback Proposal: Subject Employees and Time Periods

- The proposed recovery provisions would apply to any individual who served as an executive officer at any time during the performance period, whether or not the person is an executive officer at the time of the restatement
- The provisions would apply to any executive officer, whether or not the person engaged in misconduct or was responsible for the erroneous financial statements
- A company would be required to recover compensation paid during the three fiscal years preceding the date on which the company is required to prepare the restatement to correct a material error

Clawback Proposal: Disclosure Requirements

- Clawback policies would be required to be filed as an exhibit to the annual report on Form 10-K
- In each proxy statements, a company must include disclosure if, during its last completed fiscal year, it
 - Prepared an accounting restatement that required a clawback
 - Had an outstanding balance of unrecovered excess incentive-based compensation
- Information to be disclosed includes the name of each person subject to a clawback and any such amounts that have been outstanding for at least 180 days

Clawback Proposal: Practical Considerations

- Recoverable amounts would be determined on a pre-tax basis
- A company would not have to recover excess compensation if the direct expense of recouping compensation would exceed the amount recoverable
- Foreign private issuers would not have to recover excess compensation if they obtain an opinion of home-country counsel that recovery would violate home-country law adopted prior to July 2015
- In the case of pool plans, recovery should be pro rata and a company would not be able to pursue differential recovery among executive officers

Clawback Proposal: Practical Considerations (cont'd)

- A company would be prohibited from indemnifying their executive officers for incentive compensation recoverable pursuant to clawback policies and from paying the premiums on any insurance policy protecting against such recoveries
- Any required disclosures included in a proxy statement would be required to be block-tagged using XBRL
- Summary compensation table amounts should be restated to reflect the impact of any clawbacks

Pay-for-Performance Proposal

- Section 953(a) of the Dodd-Frank Act
- SEC proposed rules on April 29, 2015
- Comment period ended on July 6, 2015
- The proposed rule would require companies to include a new table in their proxy statements showing the relationship between compensation actually paid and performance, with performance measured both by company TSR and peer group TSR
- All companies would have to provide the proposed disclosure, except foreign private issuers, registered investment companies and emerging growth companies

Pay-for-Performance Proposal: Disclosure Requirements

Pay Versus Performance

Year	Summary Compensation Table Total For PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for non-PEO Named Executive Officers	Average Compensation Actually Paid to non-PEO Named Executive Officers	Total Shareholder Return	Peer Group Total Shareholder Return
(a)	(b)	(c)	(d)	(e)	(f)	(g)

Pay-for-Performance Proposal: Disclosure Requirements (cont'd)

- The chart is required to include five years of information
- The chart is to include separate line items for the compensation of the principal executive officer individually (or the aggregate if more than one person served in that role in a year) and the average compensation of the other named executive officers for each year

Pay-for-Performance Proposal: Disclosure Requirements (cont'd)

- With two exceptions, the amounts are to be calculated in the same manner as for the Summary Compensation Table
 - The aggregate change in actuarial present value of the accumulated benefit included in the Summary Compensation Table would be deducted and replaced with the actuarially determined service costs for services rendered by the executive during the year
 - Equity awards would be considered actually paid on the date of vesting, whether or not exercised, and would be fair-valued on that date

Pay-for-Performance Proposal: Disclosure Requirements (cont'd)

- A clear description of the relationship between pay and performance must accompany the table in narrative or graphic form or a combination of both
- The required tabular disclosures included in a proxy statement would be required to be tagged using XBRL and any related footnotes would be required to be block-tagged
- Phase-in of new requirements to occur over a three-year period

Hedging Policy Disclosure Proposal

- Section 955 of the Dodd-Frank Act
- SEC proposed rules on February 9, 2015
- Comment period ended on April 20, 2015
- The proposed rule would require companies to disclose whether they permit employees and directors to hedge the company's securities
- Proposed rules would require the hedging policy disclosure in any proxy statement or information statement with respect to the election of directors
- Applicable to all companies subject to the federal proxy rules, including smaller reporting companies, emerging growth companies, business development companies and registered closed-end investment companies with shares listed and registered on a national securities exchange

Hedging Policy Disclosure Proposal: Practical Implications

- Companies are not required to prohibit hedging or to adopt practices or policies addressing hedging by any employees, officers and directors
- Many companies already discuss hedging policies in their CD&A – Item 402(b) of Regulation S-K requires disclosure of material information necessary to understand compensation policies and includes hedging policies as an example of information that should be provided, if material
- The proposed rules extend beyond the current CD&A requirement
 - Apply to all employees, officers and directors
 - Apply to all companies subject to proxy rules
- Companies should consider reviewing their hedging policies in light of the disclosure that may be required and identifying revisions to their current hedging policy disclosures that may be needed for future proxy statements

Say-on-Pay Statistics

- Average vote in 2016 for Russell 3000 companies was 91% in favor
- 31 Russell 3000 companies (1.6%) failed say-on-pay in 2016 (through October 10, 2016)
- Of Russell 3000 companies with say-on-pay votes in each year between 2011 and 2016
 - only 10% failed at least once
 - 28% received less than 70% favorable votes at least once
- ISS negative recommendation generally lowers support but does not necessarily result in a failed vote

Source: Semler Brossy, *2016 Say on Pay Results*, October 12, 2016

Say-on-Pay and Shareholder Engagement

- A year-round process
- Focused presentations
- Deciding who participates
- Engaging with proxy advisory firms
- Obtaining shareholder feedback
 - CD&A disclosure of how compensation committee took prior year vote into account

Microsoft-Shareholder Engagement from 2016 proxy statement

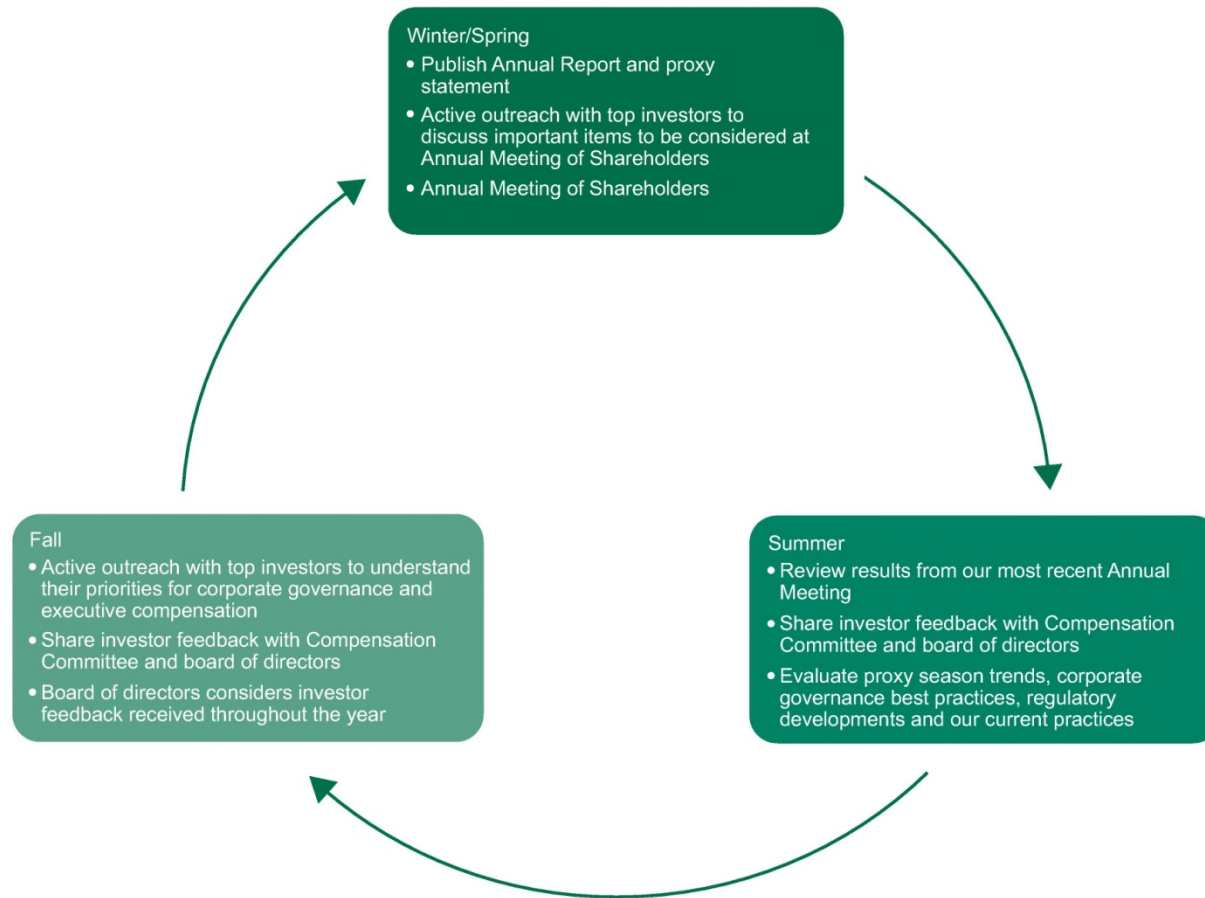
Our corporate governance cycle promotes effective shareholder engagement

Microsoft believes that effective corporate governance should include regular, constructive conversations with our shareholders. We actively engage with our shareholders as part of our annual corporate governance cycle described below.

Annual corporate governance cycle



Starbucks' shareholder engagement from 2016 proxy statement



Disclosure and Presentation Highlights

- Use of proxy statement summaries to highlight say-on-pay
- Hyperlinked table of contents
- Use of graphics and color
- Emphasis on design
- Plain English
- Online Version
- Filing PDF as well as EDGAR copy with SEC

Additional Elements

- Letter from Board
 - Coca-Cola
 - Allstate
 - Prudential Financial
- Letter from Lead Director
 - Coca-Cola
 - Prudential Financial
- Table of contents and separate sections for CD&A
 - ExxonMobil
 - Microsoft
- Alphabetical index of frequently requested information
 - General Electric

Additional Elements (cont'd)

- Q&A with Chairman and/or Lead Director
 - Coca-Cola
 - General Electric
- Value Statement
 - Apple
- Diversity Goals
 - Prudential Financial
- Governance Graphics
 - Coca-Cola
 - General Electric

Effective CD&A Disclosure for Say-on-Pay Votes

- Satisfying a disclosure obligation versus advocacy for advisory say-on-pay vote
- Executive Summary
 - Goals of program
 - Recent changes
- Table of contents and distinct sections
- Clarifying link between pay and performance
- Use of graphics

Response to Prior Year Say-on-Pay Vote

- CD&A requirement
- Often part of a discussion of shareholder engagement
- Might describe changes to compensation program
- Might confirm that compensation committee believes the current compensation program best meets the appropriate goals

Examples of Proxy Statement Features

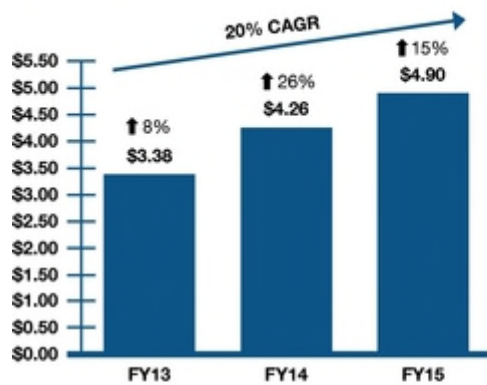
- The next few slides provide examples of the following proxy disclosure features
 - Proxy summaries
 - CD&A enhancements
 - Additional compensation materials
 - Graphics used for governance presentations

Walt Disney 2016 Proxy Summary

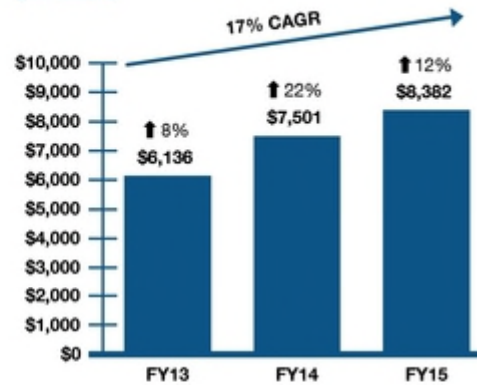
- Seven pages long
- Proposals to be Voted On
- Attendance at the Meeting
- Fiscal 2015 Performance
- Compensation Structure and Philosophy
- Fiscal 2015 Chief Executive Officer Compensation
- Amendment to Certificate of Incorporation
- Shareholder Proposals

Walt Disney 2016 Proxy Summary

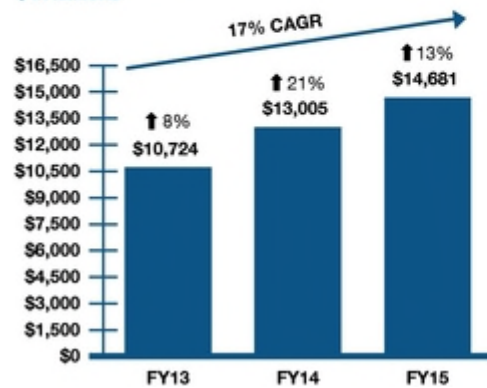
Diluted EPS (Reported)



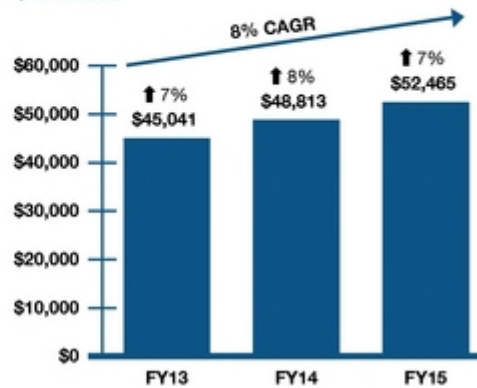
Net Income Attributable to Shareholders
\$ in Millions



Segment Operating Income
\$ in Millions



Revenue
\$ in Millions



General Electric 2016 Proxy Overview / Compensation

Compensation Profile

PAY CONSIDERATIONS

Performance: emphasize overall GE results & consistent, relative & sustainable performance

Balance: formulaic comp. vs. Compensation Committee judgment; future vs. current pay; mix of performance measures

Risk: performance metrics include specific risk-focused goals



WHAT WE DO

Shareowner approval for severance & death benefits

Clawback of incentive compensation when warranted

Significant share ownership requirements & holding period for option shares

Limited perquisites including transportation, life insurance, home security



WHAT WE DON'T DO

No individual severance or change-of-control agreements

No gross-ups on excise taxes

No dividend equivalents on unearned RSUs/PSUs

No hedging or pledging of GE stock

No lump sum payout of pension

Exxon Mobil 2016 Compensation Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Discussion and Analysis (CD&A) and Executive Compensation Tables are organized as follows:

	Topics	Page
<u>Executive Compensation Overview</u>	<ul style="list-style-type: none"> Executive Summary How did we perform? How do we link performance and pay? How did we pay? How do we manage risk? Shareholder Engagement and Prior Say-On-Pay Vote 	29 30 32 34 36 38
<u>Key Elements of the Compensation Program</u>	<ul style="list-style-type: none"> Salary Annual Bonus Equity Awards Retirement Plans 	39 39 40 40
<u>Key Additional Features of the Compensation Program</u>	<ul style="list-style-type: none"> Benchmarking Principles Share Utilization Granting Practices Stock Ownership Hedging Policy Clawback Policy and Forfeiture Provisions Employment Arrangements Tax Matters 	41 42 42 42 42 43 43 43
<u>Compensation Committee 2015 Decisions</u>	<ul style="list-style-type: none"> Performance Measurements Pay Awarded to Named Executive Officers 2015 Compensation for Named Executive Officers 	44 45 46
<u>Executive Compensation Tables and Narratives</u>	<ul style="list-style-type: none"> Summary Compensation Table Grants of Plan-Based Awards Outstanding Equity Awards Option Exercises and Stock Vested Pension Benefits Nonqualified Deferred Compensation Administrative Services for Retired Employee Directors Health Care Benefits Unused Vacation Termination and Change in Control Payments in the Event of Death 	47 51 51 52 53 55 55 55 55 56 56

Microsoft 2016 CD&A Sections

The content of this Compensation Discussion and Analysis is organized into five sections.

Section 1 – The continuing evolution of pay at Microsoft.....	29
Section 2 – Executive compensation overview.....	34
Section 3 – Fiscal year 2016 compensation decisions.....	36
Section 4 – Compensation design process for fiscal year 2016.....	42
Section 5 – Other compensation policies and information.....	44

La-Z-Boy 2016 CD&A Executive Summary

Summary of Executive Compensation Practices

What We Do

- ✓ Pay for performance – Our compensation program for named executive officers emphasizes variable pay over fixed pay, with a majority of their target compensation linked to our financial or market results
- ✓ Executive stock ownership guidelines – Our expectations for ownership align executives' interests with those of our shareholders
- ✓ Use relative total shareholder return (TSR) in long-term performance awards
- ✓ Require company contributions to the executive compensation retirement plan to be determined by company performance
- ✓ Mitigate undue risk – we have caps on potential incentive payments and a clawback policy on performance-based compensation
- ✓ Use double-trigger change-in-control agreements
- ✓ Include only independent directors on the compensation committee
- ✓ Engage an independent compensation consulting firm to assist the compensation committee and board with executive program design and compensation reviews
- ✓ Provide severance and change-in-control arrangements that are aligned with market practices
- ✓ Prohibit hedging and short sales by executive officers and directors

What We Don't Do

- ✗ Provide employment agreements
- ✗ Gross up excise taxes upon change in control
- ✗ Reprice options without shareholder approval
- ✗ Pay dividends on unearned performance shares or units

ExxonMobil Additional Compensation Materials

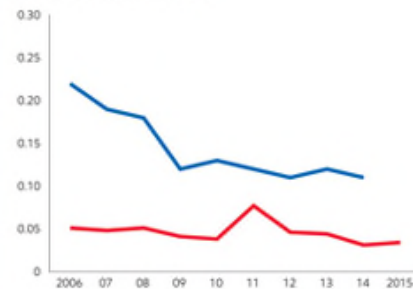
- Executive Compensation Overview
 - Glossy, 12-page document
- Supplemental information with updated benchmarking information
- Audio webcast slides

ExxonMobil 2016 Executive Compensation Overview

1. Safety and Operations Integrity

- Leading safety performance; results are a leading indicator of business performance and underscore safety as a core value

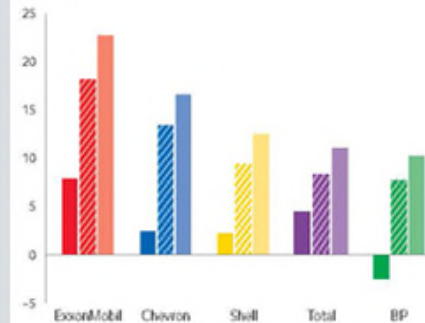
Lost-Time Injuries and Illnesses Rate:
 ExxonMobil Workforce⁽¹⁾ U.S. Petroleum Industry Benchmark⁽²⁾
 (Incidents per 200,000 work hours)



2. Return on Average Capital Employed (ROCE)⁽³⁾

- Balanced and highly competitive portfolio of resources, assets, and products in each business segment, resulting in industry-leading ROCE

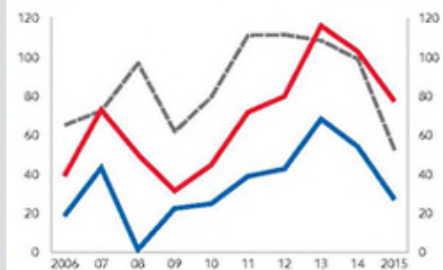
2015 5-Year Average 10-Year Average
 (percent)



3. 10-Year Cumulative Returns⁽⁴⁾

- Superior relative returns through a range of economic environments and business cycles
- Maintaining leadership position despite industry downturn

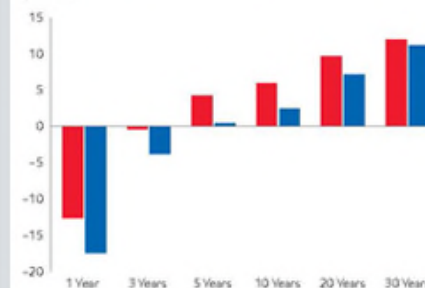
Cumulative Shareholder Returns:
 ExxonMobil Industry Group Average⁽⁵⁾ Brent Price⁽⁶⁾
 (percent) (dollars per barrel)



4. Total Shareholder Return (TSR)⁽⁴⁾

- Leading the industry in TSR in all performance periods, most notably over time periods aligned with long investment lead times of our business

ExxonMobil Industry Group Average⁽⁵⁾
 (percent)



ExxonMobil 2016 Executive Compensation Overview (cont'd)

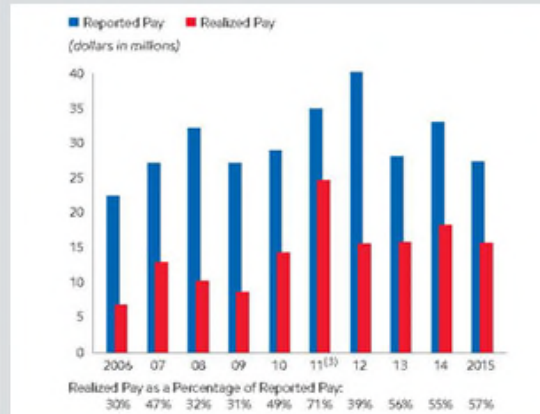
11. Reported Pay

- Pay granted to CEO in 2015 is down 18 percent versus 2014
- Change reflective of industry downturn and resulting primarily from decrease in annual bonus and share price



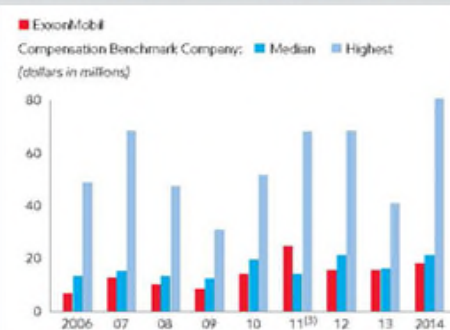
12. Reported Pay vs. Realized Pay

- Realized pay represents on average 47 percent of total reported pay over CEO's tenure
- Delta results from large portion of reported pay in equity with long vesting periods



13. Realized Pay vs. Benchmark Companies⁽⁴⁾

- CEO's realized pay is below the median of benchmark companies for most of his tenure
- In 2014, CEO's realized pay ranked 8 of 13



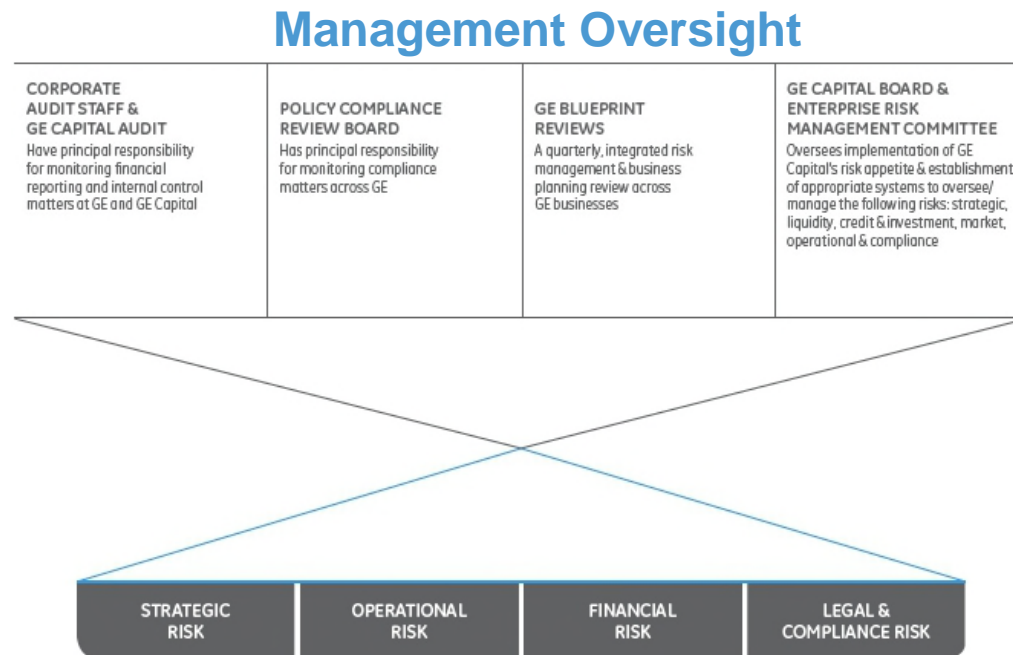
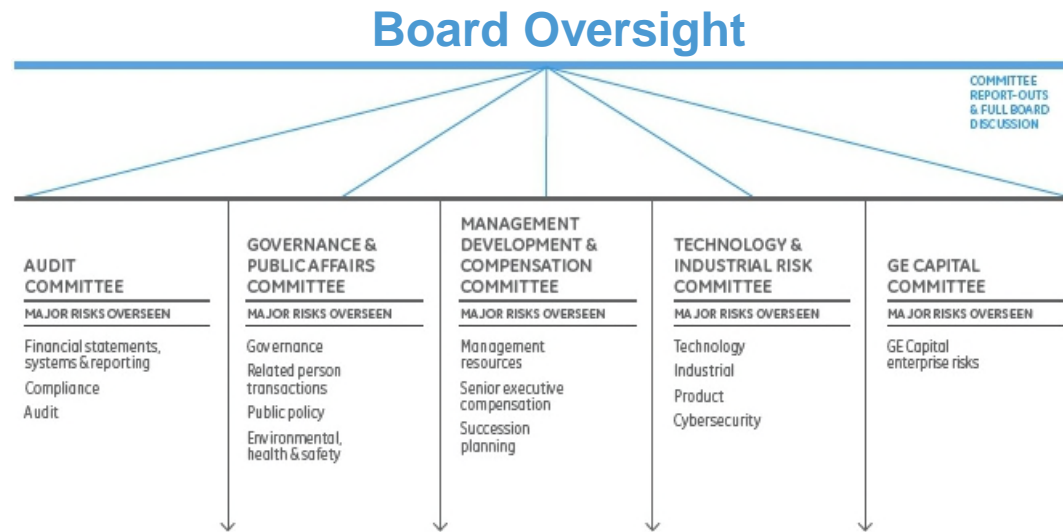
14. Realized and Unrealized Pay⁽⁴⁾

- CEO's combined realized and unrealized pay over his tenure is at the 39th percentile of compensation benchmark companies

CEO's Tenure 2006 to 2014	ExxonMobil	
	Percentile	Position
Realized Pay	26%	10 of 13
Combined Realized and Unrealized Pay	39%	8 of 13

- With pension value and nonqualified deferred compensation included, the orientation is between the 38th and 74th percentiles, depending on the method of quantifying pension values

GE Governance Graphics from 2016 Proxy Statement



Combining Proxy Graphics with Branding

- Coca-Cola



- General Electric



Proxy Graphics –Identifying Proposals

- Coca-Cola

ITEM 1 - ELECTION OF DIRECTORS



- **What am I voting on?**

Shareowners are being asked to elect 15 Director nominees for a one-year term.

- **Voting recommendation:**

FOR the election of each Director nominee. The Board and the Committee on Directors and Corporate Governance believe the 15 Director nominees possess the necessary qualifications, attributes, skills and experiences to provide quality advice and counsel to the Company's management and effectively oversee the business and the long-term interests of shareowners.

- Allstate



Election of 10 Directors

☑ The Board recommends a vote FOR each of the 10 director nominees.

- Diverse slate of directors with broad leadership experience.
- All candidates are highly successful executives with relevant skills and expertise.
- Balanced tenure with 9 of 10 independent of management.

Additional Materials in Response to a Negative Recommendation

- Supplements to proxy statements
- Letters to shareholders
- Slides
- Scripts or talking points
- Statements regarding changed ISS recommendation

Compensation Lawsuits

- First lawsuits alleged breaches of fiduciary duty following failed say-on-pay
- Second wave alleged insufficient compensation disclosures
 - Sought to enjoin the shareholder vote unless the company provided additional compensation disclosures
- Lawsuits challenging specific compensation actions; for example, based on failure to comply with Section 162(m) of the Internal Revenue Code
- Lawsuits regarding outside director compensation
 - Court treatment of director awards as self-dealing decisions
 - Operative standard of review is entire fairness (rather than business judgment rule)
- Publicity surrounding pay-related lawsuits and settlements may have motivated more strenuous responses to negative ISS recommendations

Say-When-on-Pay

- Shareholders need to vote on the frequency of say-on-pay at least every six years
- If a company's most recent say-when-on-pay vote was in 2011, it will need to conduct a new one not later than its 2017 annual meeting
- Company decision on frequency to be reported in Form 8-K

Proxy Access

- Proxy Access initiatives made significant inroads during the last two proxy seasons
 - Proxy access shareholder proposals increased 71% in 2016
 - Over 40% of S&P 500 companies have adopted proxy access bylaw provisions
 - Emerging consensus regarding “market” proxy access terms
- Expect continued shareholder pressure over proxy access
- Uncertainty remains

Proxy Access: A Brief History

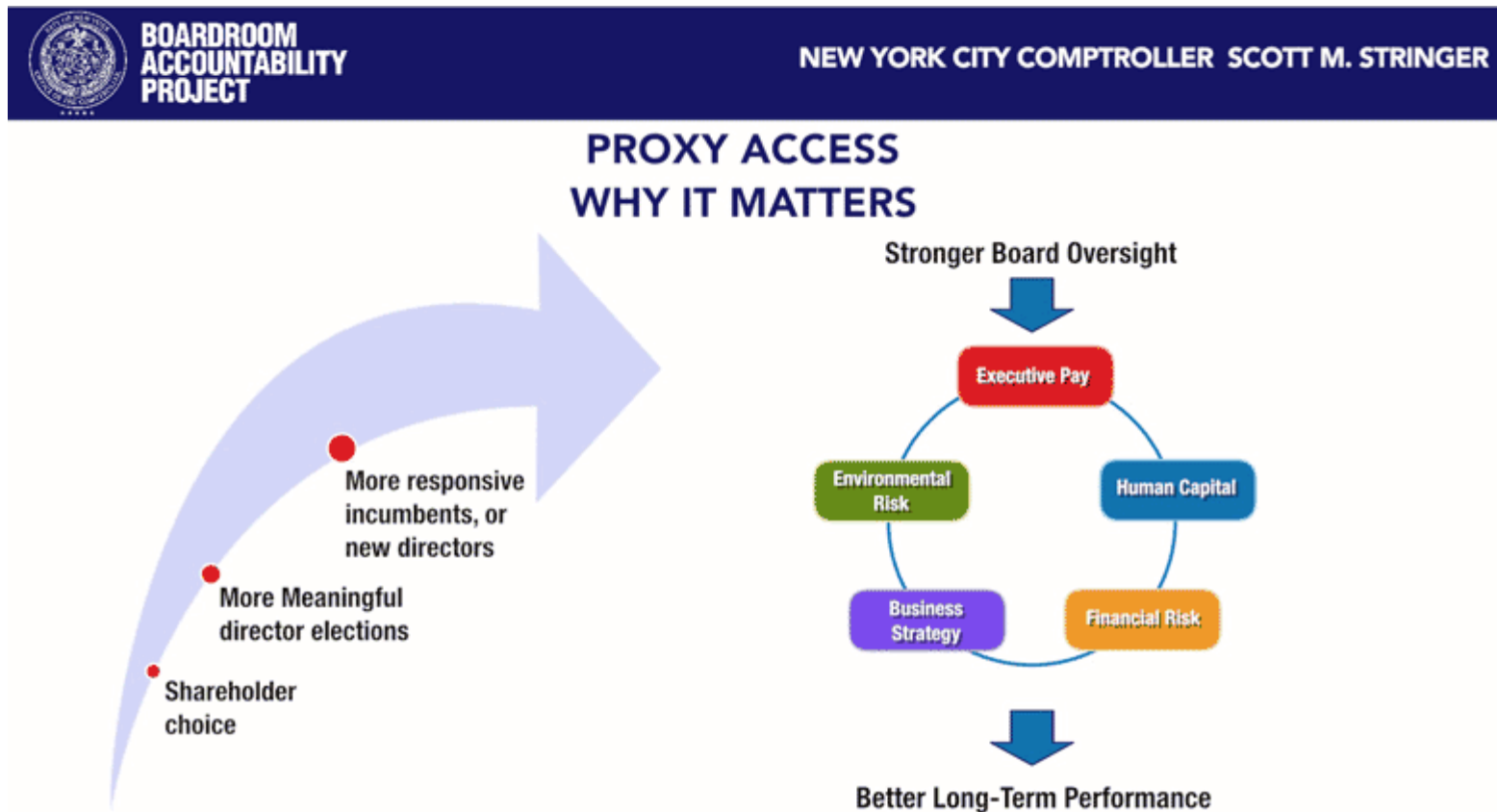
- Right of shareholders to nominate directors is rooted in state corporate law
 - The right to nominate is an intrinsic element of the right to vote
 - Bylaw provision condition the right to nominate on compliance with certain timing, procedural and disclosure requirements
 - Nominating shareholder bears the cost of preparing, printing and mailing its own proxy materials
- Proxy Access: the right of shareholders to include a director nominee in the company's proxy statement
 - Cost of proxy materials is borne by the company

Proxy Access: A Brief History

- SEC Rule 14a-11 adopted in 2010
 - Would have made proxy access mandatory through a universally applicable proxy access procedure
 - Struck down in federal court in 2011
- SEC amends Rule 14a-8(i)(8) in 2011
 - As amended, the rule requires companies to include in their proxy materials shareholder proposals that address the director nomination process
 - Companies can no longer exclude proxy access shareholder proposals

Proxy Access: A Brief History

- 2014: NYC Comptroller submits 75 proxy access proposals



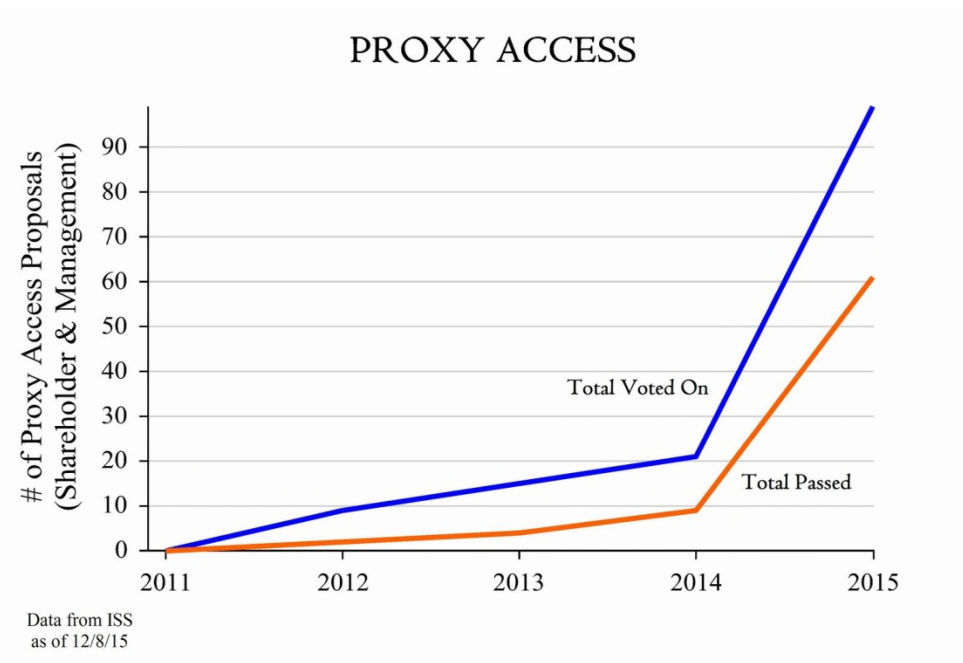
Source: Office of the New York City Comptroller

Proxy Access: A Brief History

- NYC Comptroller Proxy Access Proposal
 - Requested that the company's board adopt a **bylaw amendment** to give a shareholder (**or a group of shareholders**) who have **owned 3%** or more of the company's stock continuously for **three or more years** the right to include their director nominees, **representing up to 25% of the company's board**, in the company's proxy materials
 - NYCC proposal consistent with “vacated” SEC rule 14a-11
 - NYCC proposal did not specify any limit on number of shareholders who can aggregate their holdings to satisfy the 3% ownership requirement

Proxy Access in 2015

- 116 shareholder proposals submitted
- *Whole Foods* No-Action Letter
 - Conflicts with management proposal under Rule 14a-8(i)(9)
 - SEC puts rule under review
- 60% of the proposals passed
- Average support for proxy access proposals = 55%



Proxy Access in 2015

- SEC issues Staff Legal Bulletin No. 14H in October 2015
 - Shareholder proposal excludable as directly conflicting with a management proposal under Rule 14a-8(i)(9) only if a reasonable shareholder could not logically vote in favor of both proposals
 - Illustration: A 3% / 3 year / 20% shareholder proxy access proposal would not conflict with a 5% / 5 year / 10% management proposal
 - SEC narrows its interpretation of a “directly conflicting” proposal
 - No-action requests shift to “substantially implemented” approach

Proxy Access in 2016

- Number of proxy access proposals submitted by shareholders increased significantly
 - Fewer proxy access proposals voted on at annual meetings, with average support decreasing slightly (51%)
- Institutional shareholders and proxy advisors
 - Institutions favor 3%, 3 years, 20 shareholders, 20% of board
 - ISS and Glass Lewis review on “case-by-case” basis
- Over 200 public companies have adopted proxy access bylaw provisions since October 2015
 - Most were enacted before 2016 proxy season
 - Approximately 40% of S&P 500 have adopted proxy access

Proxy Access Bylaw Provisions

- Proxy access bylaw provisions suggest developing consensus

Requirement	Trend
Ownership	3% (“net long” ownership)
Holding Period	Three years
Number of Nominees	20% to 25% of board with minimum of two
Aggregation	20%
Information	Nominating shareholders Director candidates
Other	Shareholder representations Criteria for disqualification “Creeping control” limitations

Proxy Access – Recent Developments

- Efforts to exclude proxy access proposals on the grounds that they have been substantially implemented under Rule 14a-8(i)(10) have had mixed results
 - Proposals calling for initial adoption of proxy access bylaw successfully excluded (with exceptions)
 - Proposals to amend existing proxy access bylaws have been more difficult to exclude
- *H&R Block, Inc.* (July 2016)
 - Shareholder proposed amendments to H&R Block's 3%, three year proxy access bylaw
 - SEC unable to concur that proposal could be excluded under Rule 14a-8(i)(10)

Proxy Access – Recent Developments

- *Microsoft Corporation* (October 2016)
 - Microsoft previously adopted proxy access bylaw providing for common 3%, three-year requirements
 - Shareholder proposed amendment to allow unlimited number of shareholders to aggregate ownership (Microsoft had limited to 20 shareholders)
 - Microsoft sought exclusion under Rule 14a-8(i)(10):
 - Proxy access bylaw had achieved the proposal's essential purpose
 - *"...would result in endless nitpicking over collateral aspects of bylaws and involve impossible line-drawing."*
 - SEC Staff unable to concur: Microsoft may not exclude proposal

Proxy Access – Practical Considerations

- Companies with no proxy access bylaw:
 - Preemptively adopt “market” bylaw provision?
 - Adopt in response to shareholder proposal?
 - Negotiate withdrawal of shareholder proposal
 - Seek no-action relief to exclude proposal
 - Put shareholder proxy access proposal to a vote?
- Companies with existing proxy access bylaws:
 - Preemptively amend to conform to “market” terms?
 - Wait for shareholder proposal to amend:
 - Seek no-action relief on “substantial implementation” grounds
 - Oppose amendment in proxy statement

Shareholder Proposals – Corporate Governance

- Independent chair
 - Support for this proposal continues to recede
- Right to call special meeting
 - Fewer proposals; less support versus 2015
- Action by written consent
 - Fewer proposals; average support just over 40%
- Majority voting
 - Strong support

Shareholder Proposals – Corporate Governance (cont'd)

- Eliminate supermajority voting
 - More proposals; overall support similar
- Other corporate governance proposals
 - Board declassification/annual director elections; remove antitakeover provisions
- New and potential proposals
 - Audit firm rotation – all proposals excluded by no-action letter
 - Anti-virtual meetings?

Shareholder Proposals – Compensation Issues

- Decrease in number of proposals submitted and voted on in 2016
- Proposal types:
 - Limit accelerated vesting of equity awards upon change of control
 - Impose stock holding periods
 - Implement compensation clawback policy; require disclosure of pay ratios
- Generally not widely supported

Shareholder Proposals – Environmental/Social Issues

- Climate change

- Report on efforts to reduce greenhouse gas emissions
- Operational risks arising from climate change; adoption of principles to reduce global warming

- Sustainability

- Publish reports on sustainability efforts

- Diversity

- Publish reports or policies on board diversity and employee-level diversity
- Publish reports on gender pay gap

Shareholder Proposals – Environmental/Social Issues (cont'd)

- Human Rights
 - Publish reports on risks or violations
- Other environmental/social issues
 - Renewable energy, recycling, water management, toxic substances
 - Operations in conflict zones, minimum wage reform
- Environmental issues – modest support
- Social issues – generally low support

Shareholder Proposals – Political Activity

- *Citizens United* decision (U.S. Supreme Court – 2010)
- Proposal types:
 - Disclosure of lobbying efforts and political spending
 - NEW: Government service golden parachute
- Fewer political activity proposals compared to both 2015 and 2014
- Modest support
 - Approximately 35% for political spending disclosure and 25% for lobbying disclosure

Other Disclosure Issues – Non-GAAP

- Regulation G and Item 10(e) of Regulation S-K
- Use in proxy statements
 - Target levels for incentive compensation
 - All other non-GAAP disclosures subject to Reg G and 10(e)
- Cross-references to reconciliation
 - *Pay-related disclosures*: may use a prominent cross-reference to proxy statement annex
 - *Measures included in 10-K*: may use a prominent cross-reference to specific 10-K pages

Other Disclosure Issues – Non-GAAP (cont'd)

- May 2016 Compliance & Disclosure Interpretations
 - Misleading use of non-GAAP financial measures
 - Unacceptable prominence of non-GAAP financial measures
- Increased scrutiny
 - Comment letters
 - SEC Division of Enforcement

Other Disclosure Issues – Audit Committee Reporting

- Possible Revisions to Audit Committee Disclosures (2015 SEC concept release):
 - Oversight of auditors
 - Process for appointing/retaining auditors
 - Consideration of audit firm and engagement team qualifications
- PCAOB standards and investor pressure
- Voluntary disclosures:
 - Auditor qualifications considered by audit committee
 - Choice of auditor “in best interests of the company”
 - Explanations for increases in auditor fees

General Electric 2016 Proxy Overview / Auditors

We Engaged KPMG After a Rigorous Review Process

The Audit Committee is directly responsible for the appointment, compensation (including advance approval of the audit fee), retention and oversight of the independent registered public accounting firm that audits our financial statements and our internal control over financial reporting. The committee has selected KPMG as our independent auditor for 2016. KPMG has served as our independent auditor since 1909.

The Audit Committee annually reviews KPMG's independence and performance in deciding whether to retain KPMG or engage a different independent auditor. In the course of these reviews, the committee considers, among other things:

- **KPMG's historical and recent performance on the GE audit**, including the results of an internal, worldwide survey of KPMG's service and quality;
- **KPMG's capability and expertise** in handling the breadth and complexity of our worldwide operations;
- **An analysis of KPMG's known legal risks and any significant legal or regulatory proceedings** in which it is involved (including an interview with KPMG's chairman and CEO and General Counsel and a review of the number of audit clients reporting restatements as compared to other major accounting firms);
- **External data on audit quality and performance**, including recent Public Company Accounting Oversight Board (PCAOB) reports on KPMG and its peer firms;
- **Appropriateness of KPMG's fees** for audit and non-audit services, on both an absolute basis and as compared to its peer firms; and
- **KPMG's independence and tenure as our auditor**, including the benefits and independence risks of having a long-tenured auditor and controls and processes that help ensure KPMG's independence.

LONG-TENURE BENEFITS

Higher audit quality. Through more than 100 years of experience with GE and over 1,200 statutory GE audits annually in more than 90 countries, KPMG has gained institutional knowledge of and deep expertise regarding GE's global operations and businesses, accounting policies and practices, and internal control over financial reporting.

Efficient fee structure. KPMG's aggregate fees are competitive with peer companies because of KPMG's familiarity with our business.

No onboarding or educating new auditor. Bringing on a new auditor requires a significant time commitment that could distract from management's focus on financial reporting and internal controls.

8X+
meetings per year
between committee
chair & KPMG

4X+
meetings per year
between committee &
KPMG

~300
KPMG partners
work on the GE audit

Based on this evaluation, the Audit Committee believes that KPMG is independent and that it is in the best interests of GE and our shareowners to retain KPMG as our independent auditor for 2016.

Coca-Cola 2016 Proxy Overview / Auditors

Annual Evaluation and Selection of Independent Auditors

The Audit Committee annually evaluates the performance of the Company's Independent Auditors, including the senior audit engagement team, and determines whether to reengage the current independent auditors or consider other audit firms. Factors considered by the Audit Committee in deciding whether to retain include:

- EY's global capabilities;
- EY's technical expertise and knowledge of the Company's global operations and industry;
- the quality and candor of EY's communications with the Audit Committee and management;
- EY's independence;
- the quality and efficiency of the services provided by EY, including input from management on EY's performance and how effectively EY demonstrated its independent judgment, objectivity and professional skepticism;
- external data on audit quality and performance, including recent PCAOB reports on EY and its peer firms; and
- the appropriateness of EY's fees, EY's tenure as our independent auditor, including the benefits of a longer tenure, and the controls and processes in place that help ensure EY's continued independence.

2016 Proxy Statement



Benefits of Longer Tenure

- **Enhanced audit quality** – EY's significant institutional knowledge and deep expertise of the Company's global business, accounting policies and practices and internal control over financial reporting enhance audit quality.
- **Competitive fees** – Because of EY's familiarity with the Company, audit and other fees are competitive with peer companies.
- **Avoid costs associated with new auditor** – Bringing on new independent auditors would be costly and require a significant time commitment which could lead to management distractions.

is in the best interests of the Company and its shareowners.

Cardinal Health 2016 Proxy Overview / Auditors

The following table sets forth the fees billed to us by Ernst & Young LLP for services in fiscal 2016 and 2015.

	Fiscal Year Ended June 30, 2016 (\$)	Fiscal Year Ended June 30, 2015 (\$)
Audit fees (1)	9,722,883	6,541,953
Audit-related fees (2)(4)	3,780,485	3,270,937
Tax fees (3)(4)	980,523	1,153,408
All other fees	—	—
Total fees	14,483,891	10,966,298

- (1) Audit fees include fees paid to Ernst & Young LLP related to the annual audit of our consolidated financial statements, the annual audit of the effectiveness of our internal control over financial reporting, the review of financial statements included in our Quarterly Reports on Form 10-Q and statutory audits of various international subsidiaries. Audit fees also include fees for services performed by Ernst & Young LLP that are closely related to the audit and in many cases could only be provided by our independent accountant, such as comfort letters and consents related to SEC registration statements. The year-over-year increase in audit fees was due primarily to services in connection with the Cordis and other acquisitions and growth of our Specialty Solutions division.
- (2) Audit-related fees include fees for services related to acquisitions and divestitures, audit-related research and assistance, internal control reviews, service auditor's examination reports and employee benefit plan audits.
- (3) Tax fees include fees for tax compliance and other tax-related services. The aggregate fees billed to us by Ernst & Young LLP for tax compliance and other tax-related services for fiscal 2016 were \$546,722 and \$433,801, respectively, and for fiscal 2015 were \$452,096 and \$701,312, respectively.
- (4) In fiscal 2016, we began classifying certain acquisition-related tax due diligence services as audit-related fees in accordance with a change in our Audit Committee Audit and Non-Audit Services Pre-Approval Policy. Previously, we classified these services as tax fees. Fiscal 2015 fees of \$674,763 have been reclassified from tax fees to audit-related fees to conform to the current year presentation.

Other Disclosure Issues – Form 10-K Summary

- Fixing America's Surface Transportation Act (FAST Act)
- New Optional Item 16 of Form 10-K
 - Summary of information in Form 10-K
 - Brief, presented fairly and accurately
 - Include hyperlink/cross-reference for each item summarized
 - Only reference information included in 10-K when filed
 - Need not update for Part III information that is in a later-filed proxy or information statement

Other Disclosure Issues – Risk Factor Updates

- Review existing risk factors
- Consider new/expanded risk factors
 - Brexit
 - Climate Change/Sustainability
 - Cybersecurity/Privacy
 - Others based on specific industry/location/challenges

Other Annual Meeting Matters

- D&O questionnaires
 - AS 18 identification of related parties
 - Nasdaq golden leash
- Online/virtual meetings
 - Hybrid
 - Completely virtual
- SEC's universal proxy proposal
- Proxy Card C&DI 301.01
 - Sufficient detail to explain proposal
 - Applies to both management and shareholder proposals

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Thank you

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