

COMMENTS FROM TIMOTHY SMITH,
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LEAD PROPONENT

March 31, 2010

My firm, Walden Asset Management is the lead proponent of the shareholder resolution seeking the adoption of an advisory vote on executive pay.

The resolution is co-sponsored by a number of other investors including Northstar Asset Management, Catholic Health East (a major health care system) and the Sisters of Charity of Houston.

All of the filers are supporters of this reform across the business community.

Last year the resolution was sponsored by TIAA-CREF, the largest single pension fund in the U.S., with a strong commitment to good corporate governance.

It received an impressive vote in the 45% range illustrating deep interest by Johnson & Johnson investors in this change.

The resolution is not a criticism of Johnson & Johnson and its Board Compensation Committee. It is, however, an attempt to provide a check and balance on compensation by the shareowners of Johnson & Johnson, who have their capital invested in our company and seek a broader voice on pay.

As a long term owner of Johnson & Johnson shares, we commend the company for its leadership on a wide range of environmental, social and governance issues.

Obviously, no company is without flaws and problems, but Johnson & Johnson lives up to its goal of being a well governed company which seeks to be a leader on environmental and social issues.

In our experience, Johnson & Johnson acts respectfully and responsibly to its investors.

One of the signs of openness is the company's participation in this on-line forum allowing questions and comments from shareholders and seeking feedback from proponents.

One would hope more and more companies would find imaginative ways to solicit investor questions and input.

A number of the questions posed on-line raise legitimate questions for us as resolution sponsors.

Sometimes sponsors of the approximately 1,500 resolutions that are filed with companies are seen to be gadflies or promoting a narrow interest.

But it is our experience that the vast majority of these resolutions are raising important issues deserving of the Board and management's attention.

And well over one third of the resolutions filed get withdrawn because it has stimulated re-thinking in the company and an agreement is reached.

For example, over 65 companies have adopted the advisory vote requested in this resolution, most in response to shareholder petitions. So the request is helping stimulate thinking in the corporate community.

Hopefully it will be enacted as law if the Senate passes a financial reform bill and Johnson & Johnson will have its own advisory vote on pay next year just as they propose votes on the Board and the auditors.

This will help provide an important communication for investors on pay.

Let me try to address some of the thoughtful questions raised.

1. "Frequently the proponents are the same people proposing the same issue with multiple companies."

This is true, often institutional investors file the same resolutions with numerous companies if they seek a specific policy change or expanded disclosure.

These resolutions will only gather strong votes if investors see them as being in the best interests of shareholders and the company. It is not trying to micro-manage but to encourage the company to study an issue further.

2. "Executive compensation in most blue chip corporations is excessively extravagant."

Until the recent economic downturn, executive compensation was spiraling upward in most companies, especially financial firms, as CEOs sought to be in the top pay tier of business leaders.

And some pay practices provided huge compensation packages even when the stock price and the company performance were dismal.

Naturally investors spoke up and criticized such compensation and abusive perks like having investors pay the CEO's taxes (grossups) or their country club membership.

The criticism, including expanded media attention, has had an impact and resulted in many changes in compensation philosophy and practice.

But much more needs to be done. And Say on Pay is one way to provide investors with a platform for feedback to the company.

Ironically, Johnson & Johnson's statement of opposition in the proxy seems to be the legal boilerplate that we see in many companies proxy.

For example, the Board argues they won't know what the vote means. Well of course they won't know – if they don't ask!

If there is a high vote against a director or the auditors, you talk to shareowners and seek out the reasons. It isn't a mystery, just requires a little elbow grease and talking to investors.

3. "40 years ago income disparity in the S & P 500 was 30 times between the highest paid and the average worker. Now it is 300 times. What are executives doing now that they didn't do 40 years ago that makes their work 1000% more valuable to the company?"

Indeed, the gap between pay of average employees and top executives has risen astronomically. It would be interesting to know if Johnson & Johnson's Board Compensation Committee traveled that reality and took it into account as one factor in their executive compensation decisions.

Certainly executive compensation is also one factor in the growing inequality in income between average Americans and the wealthiest.

And if a company is constantly pushing the spiral up by trying to keep up with competitor's executive pay, the trend will escalate endlessly.

Certainly this is one reason for investors to urge a re-thinking of the assumptions for executive compensation and one more argument for a check and balance such as Say on Pay.

4. "I'm tired of having activist shareholders take management's time away from its primary duty of running the company."

It is true that there is a new breed of active, involved and informed shareowners engaged with the company management and Board.

But, after all it is our capital invested in companies and if investors don't look out for shareholders interests who will.

One could argue that passive, disengaged investors contributed to the earlier debacles with Enron and we all should be thoughtfully alert and engaged by voting our proxies and raising issues with management as necessary as well as commending them when a job is well done.