

Investors' Perceptions of Activism via Voting: Evidence from Contentious Shareholder Meetings

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Abstract:

We define annual shareholder meetings as contentious if a significant fraction of shareholders are expected to vote against management's recommendation on one or more of the items on the ballot, a signal that shareholders are increasing their monitoring activity. Using a sample of almost 28,000 meetings between 2003 and 2012, we examine stock returns over the period between the proxy filing and the annual meeting, when investors learn about the contentious nature of the meeting and form expectations about its likely impact on firms' behavior. We find that abnormal stock returns prior to contentious meetings are significantly positive and higher than prior to non-contentious meetings. These higher abnormal returns increase with the contentiousness of the meeting, are more pronounced in firms with poor past performance (which are more likely to respond to shareholder pressure) and persist after controlling for firm-specific news and proxies for risk factors. Our results are consistent with investors expecting shareholder activism via voting to have a positive impact on firm value, on average.

JEL Classification: G34, G38, J33, M12

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1. Introduction

We examine investors' perceptions of the value of shareholder activism via voting. Activism via voting refers to the set of tools available to shareholders to express their voice at the annual meeting: filing and/or voting in favor of shareholder proposals opposed by management, voting against management proposals and withholding votes from director nominees proposed by management in uncontested director elections. Historically viewed as an ineffective monitoring mechanism, beginning with the Enron-type scandals activism via voting has increasingly affected firms' policies. Shareholder votes in favor of (against) proposals opposed (supported) by management have become more frequent. Even when such votes are non-binding, firms have become more responsive, with the rate of responsiveness increasing in the voting outcome. Prior studies have documented this phenomenon in the context of shareholder proposals, director elections, and other management proposals.¹ While this evidence suggests that votes "matter", whether this form of activism (and, more broadly, greater shareholder voice) has beneficial or detrimental effects on firm value remains an open and debated question, with important policy implications.²

We investigate this question by examining the stock price reaction to instances of activism via voting. To capture such instances, we focus on annual meetings with at least one ballot item where a substantial fraction of shareholders is expected to vote against management's voting recommendation. We define such items (and, thus the underlying meeting) as "contentious". Essentially, we argue that contentious meetings signal to the market that shareholders are stepping up the level of scrutiny and that such increased monitoring is likely to affect firms' policies. Hence, the stock price reaction to news of a contentious meeting will reflect investors' perceptions of the net effect of activism via voting on firm value, on average.

¹ Examples of such studies include Del Guercio, Seery and Woitke (2008), Cai, Garner and Walkling (2009), Ferri and Sandino (2009), Fischer, Gramlich, Miller and White (2009), Ertimur, Ferri and Muslu (2011), Dao, Raghunandan and Dasaratha (2012), Armstrong, Gow and Larcker (2013), Ertimur, Ferri and Oesch (2013, 2016), Ferri and Oesch (2016). These studies document associations between shareholder votes and various subsequent firm outcomes (adoption of certain governance provisions, changes in CEO compensation, board and CEO turnover, acquisitions and divestitures, etc.)

² Proponents of greater shareholder voice argue that shareholder votes pressure reputation-sensitive boards to better monitor management, with a positive impact on firm value. Critics contend that reputation concerns may push boards to pander to unsophisticated or uninformed shareholders often driven by special interests, ultimately reducing firm value. See Edelman, Thomas and Thompson (2014) for a discussion of theories of shareholder voting.

Our definition of a contentious item varies by item type (director elections, management proposals and shareholder proposals) because prior research finds that the voting outcome that triggers a firm's response and thus may affect its policies varies by item type. For example, firms tend to only respond to shareholder proposals when more than 50% of the votes are cast in favor (Ertimur, Ferri and Stubben 2010). Therefore, we classify a shareholder proposal as contentious (i.e. likely to affect firms' policies) if historically that type of proposal has received at least 45% of the votes. We follow a similar approach to identify contentious management proposals and contentious director elections, and examine the robustness of our results to different definitions.³ While our definition of contentious meeting is based on the expected voting outcome, prior studies identify past performance as another key determinant of the impact of activism via voting (i.e. shareholder votes are more likely to affect firms' behavior at poorly performing firms). Hence, we expect the stock price reaction to be more pronounced for poorly performing firms.

To examine the stock price reaction to news of a contentious meeting we need to define the event window of interest. Because investors know the ballot items in advance, at the time of the actual vote the occurrence of a contentious meeting is largely anticipated (Cuñat et al. 2012). Hence, we measure stock returns between the filing of the proxy statement (generally the first document detailing the ballot items) and the annual meeting (hereinafter proxy-to-meeting window). During this time important information is released that affects investors' expectations about the voting outcome and thus the likelihood of subsequent changes in firms' policies (e.g. meeting agenda, proxy advisors' recommendations, activists' and firms' communications, media coverage; see discussion in Section 2.3). In other words, during this period the "contentious" nature of the meeting is revealed.

Using a sample of almost 28,000 annual meetings of Russell 3000 firms between 2003 and 2012, univariate tests indicate that over the proxy-to-meeting window firms facing contentious

³ We classify a management proposal as contentious if historically that type of proposal has received at least 20% of votes against, relying on the evidence that firms tend to respond to voting dissent above 20%. In the case of director elections, we define a meeting as contentious if more than one third of directors up for election receive a withhold recommendation from the proxy advisor Institutional Shareholder Services (ISS), suggesting that the recommendation targets an entire committee or board. In choosing this definition, we rely on the evidence that withhold recommendations issued against an entire committee or board are associated with a greater amount of votes withheld and greater likelihood of firm's responsiveness (Ertimur, Ferri and Oesch 2016). See Section 2.2 for details on our measures and their rationale, as well as alternative definitions.

meetings experience significantly positive cumulative abnormal returns (CAR) ranging from 0.6% to 1.8%, depending on the type of ballot item. As predicted, the results are more pronounced for the subset of poorly performing firms (defined as those with negative abnormal returns over the prior 12-month period) where the proxy-to-meeting CAR range from 2.3% to 4.0%. More importantly, the CAR before contentious meetings are significantly higher than before non-contentious meetings with differences ranging from 1.3% to 3.1% in the subset of poorly performing firms. Notably, the magnitude of CAR (and the difference relative to non-contentious meetings) increases with the degree of contentiousness of the meeting. For example, across the three items, it is higher when we tighten the definition of a contentious item to capture greater expected voting dissent and thus greater expected impact on firms' behavior. We find a similar pattern around proxy filing dates, the first news of a likely contentious vote. The 3-day CAR around proxy filings prior to contentious meetings are positive and significant, and significantly higher than prior to non-contentious meetings, with a more pronounced difference among poorly performing firms.

While these results are consistent with investors favorably viewing instances of activism via voting, we consider several alternative explanations. The first one is that the higher proxy-to-meeting CAR before contentious meetings reflect differences in firm characteristics. While we document that firms with contentious meetings are generally larger and have poorer governance quality, our investigation indicates these differences are not likely to explain the pre-meeting higher returns. Also, the factors associated with contentious votes differ substantially between director elections, management proposals and shareholder proposals, making it unlikely that these factors explain the pre-meeting returns for all the contentious items. The second alternative explanation is that the higher CAR prior to contentious meetings are due to other events occurring during the proxy-to-meeting window. Both in the full sample and among poorly performing firms, univariate tests suggest no difference between contentious and non-contentious meetings during the proxy-to-meeting window in terms of magnitude of earnings surprise and management forecast surprise, or in terms of frequency and information content (i.e. 3-day CAR) of 8-K filings, firm-initiated press releases, repurchase announcements and 13-D filings by activist hedge funds. An examination of analysts' forecasts and recommendations and media coverage also suggests our results are not due to other events occurring during this time.

Additionally, we perform a multivariate test by regressing the proxy-to-meeting CAR on our proxy for contentious meetings, a set of variables capturing the firm-specific disclosures and events discussed above as well as various controls for firm characteristics and year-quarter fixed effects. To better match contentious and non-contentious meetings, we also use the entropy balancing technique. Our results are robust to all of these items. As a final robustness check, when we replace the indicator for contentious meetings with indicators for each of the three types of contentious items (director election, shareholder proposals and management proposals), we find that among *Past Losers* all three coefficients are positive and significant, with magnitudes ranging from 1.2% to 1.4%. This result further alleviates concerns that our findings capture differences between firms with and without contentious meetings. This is because, as noted earlier, the determinants of each type of contentious items are not necessarily the same. Hence, to explain our results, it must be that the *different* determinants of each contentious item, for some reason, all predict positive abnormal returns during the proxy-to-meeting window. This seems unlikely.

Finally, we consider whether our results may be due to firms with contentious meetings anticipating (delaying) the disclosure of good (bad) news that would otherwise be released after (prior) the meeting. If this was the case, we would observe higher returns prior to the meeting but no difference in returns over the longer window (relative to firms with non-contentious meetings). However, the higher returns for contentious meetings persist over a longer window that includes a 40-day period *after* the meeting. Thus, it does not appear that the higher proxy-to-meeting CAR are driven by strategic timing of positive firm-specific news.

While we acknowledge that our research design does not lend itself to a causal interpretation (Gow, Larcker and Reiss 2016), our evidence of positive abnormal returns prior to contentious meetings is consistent with investors having a favorable view of the impact of activism via voting, on average. As in similar work, a caveat to our interpretation is that the abnormal returns may reflect an omitted risk factor. However, our results hold when adjusting abnormal returns for Fama-French risk factors as well as controlling for firm characteristics associated with risk factors. Also, we find that the higher proxy-to-meeting CAR is unique to the window immediately prior to the meeting and does not occur in the adjacent windows. Hence, for an omitted risk factor to explain our results, it would need to be present in our proxy-to-meeting window, but not in the adjacent periods and also be somehow correlated to, but not driven by, the contentious votes.

Our study contributes to a growing body of research on shareholder voting. Over the last decade shareholder votes have emerged as an important performance metric, capturing investors' perceptions of board effectiveness and performance (e.g. Fischer et al. 2009); as an external control system and disciplining device, providing shareholders with a mechanism to hold management accountable and influence firms' policies (e.g. Balachandran, Joos and Weber 2012; Dao et al. 2012); and as a communication channel to express shareholders' preferences over governance practices (e.g. Ertimur et al. 2013). While prior studies have examined the determinants of voting outcomes and their impact on specific firms' policies in various settings (see footnote 2), the effect of this form of activism on firm value remains an open question. We fill this gap by examining investors' perception of the value of activism via voting, as reflected in the stock returns over the proxy-to-meeting window prior to the annual meeting, when investors learn about the occurrence and likely impact of a contentious shareholder vote.⁴

More broadly, our study adds to the literature on shareholder activism. Much attention has been devoted to various forms of 'activism via ownership' (Ferri, 2012), where the power to influence the firm derives from the costly acquisition of a significant equity stake. This power may be quietly exerted behind the scenes (large shareholder activism; e.g. Cronqvist and Fahlenbrach 2009) or in a more confrontational and public manner (hedge fund activism and proxy contests; Brav, Jiang, Partnoy and Thomas 2008; Klein and Zur 2009; Fos 2017). Activism via ownership, however, is not an option for a large class of investors (e.g. diversified funds) and may be prohibitively costly to implement in large firms. In contrast, we examine activism via voting, a form of activism available to all shareholders at a relatively low cost (Ferri 2012), where the power to influence the firm is predicated upon shareholders' ability to build consensus and crystallize it in a symbolic and highly visible vote.⁵

⁴ Another, less direct approach to explore this question is to examine the stock price reaction to announcements of regulatory changes enhancing or reducing shareholders' voice. Findings from these studies are generally mixed, partly due to the difficulty of identifying a powerful setting (Becker, Bergstresser and Subramaniam 2013; Cai and Walkling 2011; Ferri and Maber 2013; Larcker, Ormazabal and Taylor 2011; Cohn, Gillan and Hartzell 2014).

⁵ Our finding that "votes matter" (in terms of effect on firm value) is also consistent with evidence of substantial vote trading around the proxy record date in equity loan markets reported by Christoffersen, Geczy, Musto and Reed (2007). They document that vote trading correlates with support (opposition) for shareholder (management) proposals and that it is higher in poorly performing firms and when the vote is (ex-post) closer. Similarly, Aggarwal, Saffi and Sturgess (2015) examine the securities lending market and find that investors restrict lendable supply and/or recall loaned shares prior to the proxy record date to exercise voting rights. The recall of shares is higher in firms with poor performance and weak governance, and when there are more 'important' proposals on the ballot (e.g. antitakeover-

Finally, our study contributes to the literature examining firms' disclosures. In particular, our findings suggest that proxy filings - a mandatory disclosure which has received little attention in prior studies - are an important source of value-relevant information when contentious items are on the ballot at the annual meeting. Also, by examining firms' disclosures and press coverage prior to annual meeting we extend to (non-contested) annual meetings the body of research examining information flow and disclosure practices around proxy contests (DeAngelo 1988; Collins and DeAngelo 1990; Alexander, Chen, Seppi and Spatt 2010; Baginski, Clinton and McGuire 2014).⁶

2. Sample selection, definition of contentious meetings and event window

2.1 Sample selection and measurement of stock returns

Our initial sample includes 220,620 ballot items at 28,729 annual meetings of Russell 3000 firms between 2003 and 2012, as reported in the Institutional Shareholder Services (ISS) Voting Analytics database. For each item, the database includes: the voting outcome, an indicator for whether the item represents a management proposal (214,332 items; of which 160,500 relate to director elections) or a shareholder proposal (6,288 items), the topic of the management and shareholder proposal and the voting recommendations of management and the proxy advisor ISS. Not surprisingly, management typically recommends in favor of all management proposals and against shareholder proposals (if management was in favor, the shareholder proposal would have been adopted and withdrawn before the vote). ISS recommends against management proposals 11.6% of the times (12.2% for director elections and 9.6% for other management proposals) and in favor of shareholder proposals 60.8% of the times.

To avoid the 'small denominator' effect on the measurement of stock returns, similar to Dimitrov and Jain (2011) we focus on firms with a stock price greater than \$1 and with no more than 50 missing daily returns over the 251 trading days around the annual meeting. This results in

related measures). In addition, they document that higher recall is associated with more (less) support for shareholder (management) proposals at the subsequent vote. These results support the hypothesis that shareholders value their vote, particularly when the vote is likely to affect firms' actions.

⁶ Dimitrov and Jain (2011) also examine firms' disclosures prior to (non-contested) annual meetings during the 1996-2005 period, focusing on earnings releases and management forecasts, and conclude that poorly performing firms strategically disclose good news prior to the annual meeting. We consider a broader set of firms' disclosures (including 8-K filings and press releases) as well as media coverage, in a more recent sample period. More importantly, we examine a different question – the role of activism via voting in explaining returns prior to a meeting, after controlling for strategic disclosures.

a final sample of 27,834 annual meetings. For each of these meetings, we compute stock returns over the proxy-to-meeting window using four measures: size-adjusted CAR (the sum of daily size-adjusted returns, based on NYSE/AMEX size deciles), market-adjusted CAR (the sum of daily market-adjusted returns, based on a value-weighted index), size-adjusted B&H (for each firm, the buy-and-hold returns less the buy-and-hold returns of firms in the same NYSE-AMEX size decile) and market-adjusted B&H (for each firm, the buy-and-hold returns less the buy-and-hold returns of the value-weighted index). In computing CAR, if a firm's daily return is missing we set it to zero.⁷ We focus on market- and size adjusted returns to enhance comparability with Dimitrov and Jain (2011), the only other study examining returns prior to annual meeting. In Section 5.3 we examine the robustness of our findings to the use of returns adjusted for Fama-French factors.

2.2 Identifying contentious meetings

To measure investors' perceptions of the value of activism via voting we compare stock returns prior to annual meetings where such type of activism takes place – hereinafter 'contentious' meetings – and other, more 'routine' meetings. We define as contentious those meetings where a substantial percentage of votes is expected to be cast against management's recommendations on at least one of the items on the ballot. Higher voting support for (opposition to) an item opposed (proposed) by management signals that a substantial fraction of shareholders is willing to increase their monitoring activity. Also, as detailed below, prior studies suggest that firms' responsiveness to shareholder votes increases with the degree of voting support for the underlying item. Thus, we view the degree of voting support for (opposition to) an item opposed (proposed) by management as a proxy for both an increase in shareholders' monitoring and the likelihood that such monitoring will affect firms' policies.

Prior research shows that the percentage of votes denoting substantial shareholders' opposition and likely to affect firms' actions depends on the type of ballot item. Accordingly, we tailor our

⁷ In their sample, Dimitrov and Jain (2011) find that the average size-adjusted CAR over the 251 trading days centered around the annual meeting is 2.8201% (rather than zero), reflecting perhaps a sample selection bias (coverage by ISS) or the limitations of using size as a proxy for risk. To correct for this, they adjust each firm's daily size-adjusted returns by 0.01124% (2.8201%/251 days). We observe a similar phenomenon in our sample and perform an analogous downward adjustment for each of our four measures. While this adjustment affects the level of returns reported in the following analyses, it does not affect our inferences on the differences in returns between contentious and non-contentious meetings—the focus of our study.

definition of ‘contentious’ item to the three types of items voted upon at annual meetings: director elections, management proposals (other than director elections) and shareholder proposals.

2.2.1 Contentious director elections

At each annual meeting, management submits a proposed list of nominees for the board of directors. In firms with annual elections, all directors must be elected every year. In firms with classified boards, only a fraction of directors (typically one-third) are elected each year. In uncontested elections, each nominee is virtually guaranteed to be re-elected.⁸ Yet, the voting outcome has economic consequences. Cai et al. (2009) find that higher votes withheld are associated with (subsequent) higher probability of removing poison pills, declassifying the board, replacing the CEO and reducing abnormal CEO pay. In a similar vein, Fischer et al. (2009) document that higher votes withheld are associated with (subsequent) higher probability of CEO and board turnover, and less (more) frequent and better-received acquisitions (divestitures). That is, both studies suggest that the vote acts a ‘warning’ and prompts management to make a variety of changes. Focusing on the direct effect of the votes, Ertimur et al. (2016) document that when a substantial percentage of votes (more than 20%) are withheld from one or more directors, about half of the firms respond by making governance changes that explicitly address the specific concern behind the adverse vote, as proxied by the rationale behind proxy advisors’ recommendations (e.g. composition of key board committees, executive pay practices, takeover defenses). Overall, these studies suggest that we can use expected votes withheld to capture a contentious director election, i.e. a director election signaling an increase in shareholder’s monitoring intensity and likely to affect firm policies.

Prior studies find that the key determinant of expected votes withheld is a ‘withhold’ recommendation from ISS, the most influential proxy advisor.⁹ Such a recommendation is

⁸ Under the plurality voting standard (adopted by virtually all firms until 2004) a director is elected as long as she receives one vote in favor. Starting in 2004, a number of firms have adopted a “plurality plus resignation” standard, where a director that fails to receive a majority of the votes cast, while technically elected, must submit her resignations to the board (who may decide whether or not to accept them). Only few firms have adopted a true majority voting standard, where a director failing to receive a majority of the votes cast is not elected. In practice, cases where directors lose their seat as a result of the election outcome remain very rare (Ertimur, Ferri and Oesch 2015).

⁹ ISS, founded in 1985, is the dominant player in the market for proxy advisory service. Glass Lewis, founded in 2003, is the most influential competitor (Choi, Fisch and Kahan 2010). The recommendations of Glass Lewis, however, have only a marginal impact on shareholder votes on director elections (~3-5%, see Choi, Fisch and Kahan 2009; Ertimur et al. 2016).

associated with 20% more votes withheld and there are virtually no cases of votes withheld in excess of 20% without a withhold recommendation. Also, withhold recommendations issued against an entire committee or board are associated with higher votes withheld (Ertimur et al. 2016). Based on this evidence, we define a meeting as contentious if more than one-third of the directors up for election receive a withhold recommendation (resulting in 14.9% of the meetings classified as contentious). Alternatively, we define a meeting as contentious if at least two directors receive a withhold recommendation from ISS (resulting in 15.3% of the meetings classified as contentious). Both definitions aim at identifying withhold recommendations likely to be at the committee- or board-level (and thus associated with higher expected votes withheld). For a typical board with a classified structure (e.g. nine members, three up for election each year), these two definitions are basically equivalent. However, for a board with annual elections, the former definition is more likely to capture committee-level and board-level concerns. For sensitivity, we also present the results defining a meeting as contentious if at least one director receives a withhold recommendation (resulting in 28.3% of the meetings classified as contentious).

2.2.2 *Contentious management proposals*

At most annual meetings, in addition to director elections, shareholders vote on a variety of other management proposals.¹⁰ Management proposals rarely fail (less than 1% in our sample) and are usually approved with large voting support (e.g. Morgan and Poulsen 2001; Listokin 2008; Armstrong et al. 2013). Exactly because a rare event, news that a substantial fraction of shareholders will vote against a management proposal signals to the market that shareholders are dissatisfied enough to be willing to oppose management rather than rubberstamping its initiatives.

Compared to director elections and shareholder proposals, for management proposals there is limited empirical evidence on the voting dissent likely to trigger firms' responsiveness and affect firms' policies. One exception is Ertimur et al. (2013) who find that more than half of the firms receiving a 20% or higher vote against say on pay proposals make changes to their compensation plans explicitly in response to the vote. Hence, to capture the percentage of dissent votes likely to signal to the market an increase in shareholder pressure, we use a 20% threshold. Previous studies

¹⁰ Based on the classification provided in the ISS Voting Analytics dataset, the most common proposals are: auditor ratifications (43%), proposals to approve/amend equity incentive plans (14%), say on pay proposals (9%), proposals on the frequency of say on pay (5%), proposals to approve/amend executive incentive bonus plans (4%) and proposals to increase authorized common stock (2%). The remaining 23% is comprised of over 190 types of proposals.

also show that voting patterns much depend on the type of management proposals. Combining these two pieces of evidence, we classify a meeting as contentious if there is a type of management proposal that historically has received more than 20% voting opposition. This definition results in 2.0% of all management proposals and 3.6% of all meetings being classified as contentious. Because the number of meetings classified as contentious varies substantially depending on the voting threshold used, we also present results using 15% and 25%.¹¹ Also, in unreported tests, we refine the definition of contentious by imposing the additional condition of the presence of a negative ISS recommendation, a key determinant of voting outcomes, and obtain similar results.

Using our approach, the most common management proposals classified as contentious are proposals to approve/amend stock option plans (55%), followed by proposals to approve a stock option repricing (17%), to increase authorized (or authorize a new class of) preferred stock (8%) and to adopt a poison pill (6%). Fourteen other types of proposals account for the remaining 14%.

2.2.3 Contentious shareholder proposals

Under Rule 14a-8 of the Securities Exchange Act of 1934, shareholders are allowed to submit proposals on a number of topics, typically in the form of non-binding resolutions. In our sample, about 60% of these proposals deal with governance issues such as anti-takeover provisions, shareholder rights, board composition and executive pay. The rest focus on social and environmental issues. For many decades, shareholder proposals have been largely inconsequential. Most were filed by individual investors, rarely obtained significant voting support and, even when they did, were ignored by boards (Gillan and Starks 2000; Karpoff 2001). However, since the corporate governance scandals of 2001-2002, the frequency of and voting support for governance-related shareholder proposals have rapidly increased and boards have become more responsive to winning proposals (Levit and Malenko, 2011). In particular, prior studies document a significant “jump” in the probability of implementation if the proposal passes (with the passing threshold usually set at 50% of the votes cast). For example, Ertimur et al. (2010) report that between 1997 and 2004 the rate of implementation for proposals that pass (fail to pass) is 31.1% (3.2%), with an increase to 40% in later years. Similarly, Cuñat et al. (2012) estimate a 31% increase in the

¹¹ When using a 25% voting threshold, only 1.46% of the meetings are classified as contentious. A 15% voting threshold results in 34.7% of the meetings classified as contentious. This degree of sensitivity occurs because some frequent types of management proposals historically average between 15% and 20% (e.g. proposals to approve/amend omnibus stock plans) and between 20% and 25% (e.g. proposals to amend the stock option plan).

probability of implementation for shareholder proposals that pass. Using a regression discontinuity design, they also find that passing proposals are associated with a reduction in acquisitions and capital expenditures, suggesting more judicious investment decisions. In other words, news that a shareholder proposal will be submitted and is likely to pass signals to the market that shareholders are pushing for change and that board and management are under greater pressure to engage with shareholders, respond the vote and, more generally, change firm's policies.

Previous studies also show that voting patterns vary systematically with the type of shareholder proposals. Combining this evidence with the findings on firms' responsiveness to passing proposals, we classify a meeting as contentious if there is a shareholder proposal that historically has received more than 45% voting support (and thus, with a significant likelihood to pass and trigger a firm's response). This definition results in 24.8% of all shareholder proposals and 4.7% of all meetings in our sample being classified as contentious. Among contentious shareholder proposals, the most common are proposals to declassify the board (30%), followed by proposals to adopt a majority voting standard for director elections (22%), enhance shareholders' power to call a special meeting (13%), and require shareholder approval to adopt a poison pill (11%), with ten other types of proposals accounting for the remaining 24%.

For comparison purposes, we also present results based on voting thresholds lower than 45% (namely, 30% and 40%) and based on redefining meetings as contentious if there is at least one governance-related shareholder proposal (regardless of its expected voting support). In addition, in unreported tests we refine the definition of contentious shareholder proposals by imposing the additional condition of a favorable ISS recommendation. The fraction of meetings classified as contentious only drops from 4.7% to 4.5% (virtually all the proposal types with historically high voting support are those supported by ISS) and the results are unchanged.

To sum up, for each type of shareholder and management proposals, we use the voting history for that type of proposal as a proxy for expected voting outcome. For director elections, since past votes withheld do not predict future votes withheld, we use instead the presence of an ISS withhold recommendation, the key determinant of votes withheld. For all three ballot items, we rely on the

evidence in prior studies to identify the voting outcome likely to induce board and management to change firms' policies.¹²

2.2.4 Contentious annual meeting

After analyzing each contentious item separately, we combine them into a single indicator variable denoting a *Contentious Annual Meeting*. This variable is equal to one if there is a contentious director election (i.e. more than one third of directors receiving a negative recommendation), a contentious management proposal (i.e. with historical voting dissent of more than 20%) or a contentious shareholder proposal (i.e. with historical voting support of more than 45%), and it is equal to zero if none of the three item types are contentious.

2.2.5 The role of past performance

Prior studies show that poorly performing firms are more likely to respond to shareholder votes (Ertimur et al. 2010, 2016). This is consistent with the notion that such firms are under greater pressure to reform and are in greater need to change their policies. Hence, we conjecture that investors expect a contentious vote to be a more effective disciplining device and thus have a greater impact on firms' behavior in poorly performing firms. As a corollary, we expect the magnitude of the effect to be smaller, or perhaps even zero, for firms with strong prior performance as these firms are under less pressure to reform. To test this conjecture, in our empirical tests we partition the sample of contentious meetings based on past performance.

2.3 The "proxy-to-meeting" window

Our purpose is to examine the stock price reaction to news of activism via voting. When do investors learn about such news? We argue that investors form expectations regarding contentious votes and their impact on firms' behavior mostly over the period between the release of the proxy statement and the annual meeting, the proxy-to-meeting window. Below we describe the flow of information taking place during this period and why it is the appropriate window for our tests.

2.3.1 Information flow around the proxy filing date

¹² Our definition tries to identify ex-ante contentious items based on the expected voting outcome. We do not use ex-post voting results because they may be affected by the pre-meeting returns if (some) shareholders' votes are affected by recent stock returns. However, we verify that voting outcomes are consistent with our ex ante classifications. The mean percentage of votes for contentious shareholder proposals, against contentious management proposals and withheld in contentious director elections are, respectively, 56.0%, 24.0% and 19.8%, versus 21.3%, 7.3% and 4.1% for the corresponding non-contentious items.

The release of a proxy statement is the logical starting date as proxy statements list the ballot items and provide important details about each item (e.g. proponents' and boards' positions on any shareholder proposals; identity of the shareholder submitting the proposal; rationale behind management proposals). Proxy statements also contain information that may help investors assess the likelihood of a contentious vote. For example, details about executive pay and equity incentive plans may shape investors' expectations as to whether a high percentage of votes will be withheld from compensation committee members, or cast against (in favor of) a compensation-related management (shareholder) proposal. Similarly, information about directors (e.g. independence, other seats held, meeting attendance) may speak to the likelihood of a contentious vote on director elections. For example, Ertimur et al. (2016) report that "affiliated" directors, "busy" directors and directors failing to attend at least 75% of the meetings receive a negative recommendation from ISS and a high percentage of votes are withheld from them. Proxy statements include information relevant to assess whether a director violates these ISS criteria. In brief, for most items on the ballot, the proxy statement represents the first "news" and provides contextual information that may affect the perceived likelihood of a contentious vote.

For some ballot items, especially shareholder proposals, proxy statements may be preempted by other sources (Gillan and Starks 2007). An example is when activists publicly disclose a list of firms targeted by their shareholder proposals before the proxy season begins (Ferri and Sandino 2009; Ferri and Weber 2009; NYC Comptroller 2015). These occurrences will bias against detecting a large price reaction during the proxy-to-meeting window, since the targeted firms' stock price may already incorporate expectations about the proposal's success before the proxy statement is released. However, they do not invalidate our approach as long as the proxy statement (and, more generally, other events occurring during the proxy-to-meeting window, as we discuss next) provides *incremental* information that affects investors' expectations of a contentious vote. This is likely to be the case. At the minimum, the inclusion of the proposal in the proxy informs shareholders that the proposal was not withdrawn (e.g. because management agreed to its adoption) and thus will be voted upon (Soltes, Srinivasan and Vijayaraghavan 2014). Also, as discussed earlier, the proxy includes new contextual information that will affect investors' expectations about the likely outcome of the proposal, including any actions taken by the board to address the concern underlying the proposal.

2.3.2 Information flow between proxy filing date and annual meeting date

The proxy statement represents only one piece of information about the upcoming vote. Before the annual meeting takes place, public and private communications by firms, institutional investors and proxy advisors also provide information about the likelihood of a contentious vote and the expected effect on subsequent firm's actions.

Shortly after the proxy statement is filed (usually within three weeks), ISS and Glass Lewis release a report to their clients (over 2,000 institutional investors; GAO 2007) with their voting recommendations for the meeting. Their recommendations are a key determinant of voting outcomes (Larcker, McCall and Ormazabal 2013; Malenko and Shen 2016) and are often picked up by the business press, particularly in the most controversial cases (Reuters 2012). It is plausible to assume that within a few days from the report release, key market participants know of these recommendations and the underlying rationale and can use this information in forming expectations about the voting outcome and likely firm's response to the vote.

In some cases, management responds to shareholder proposals and proxy advisors' recommendations by submitting additional information to shareholders (via amended proxy filings) to clarify its position and criticize proponents' arguments or proxy advisors' methodologies and conclusions (Ertimur et al. 2013; Larcker, McCall and Ormazabal 2015). In other cases, management may discuss the contentious item and signal how it plans to respond to the vote in public venues or private conversations with institutional investors and proxy advisors (Strine 2005; EY 2014; New York Times, 2014).

Meanwhile, activists will try to engage with management and/or rally other voting shareholders around their position on ballot items via public as well as private communications. Key shareholders may disclose their voting decision on the most controversial items on the ballot and be asked by the press to comment upon the upcoming meeting. Because of the clustering of annual meetings between April and June, during the proxy-to-meeting window investors often learn about the voting outcomes of similar items at peer firms and/or about peer firms' response to the vote (or its threat). Also, during the weeks prior to a contentious vote, business press and governance blogs cover the most controversial cases. Finally, on the day of the meeting vote tallies are disclosed and there may be some degree of surprise in the voting results, particularly for close votes (Cuñat et

al. 2012). In sum, all of this information may affect investors' expectations about the likelihood that activism via voting will be effective in affecting firms' policies.

There are a number of reasons why we focus on cumulative returns over the proxy-to-meeting window rather than around individual events within this window. First, some of these events may involve private communications unobservable to researchers (e.g. between different institutional investors, between management and institutional investors, between proxy advisors and their institutional clients, between firms and proxy advisors). Second, the potentially relevant events differ across firms and across item types and tend to be context-specific, making them difficult to identify in a large sample study. For example, sometimes a proxy advisor report contains new information because the recommendation and/or its rationale are partly unexpected. Other times, its content can be fully anticipated based on the proxy advisor's voting guidelines and the information in the proxy filing.¹³ Finally, individual events may be contaminated by other news.

3. Stock returns before contentious meetings: univariate evidence

3.1 Stock returns before annual meetings: the role of past performance

Using an earlier sample period (1996-2005), Dimitrov and Jain (2011) document positive abnormal returns during the 40-day period prior to the annual meetings and find that this result is driven by poorly performing firms. For comparison purposes, we replicate their analysis in our sample period. As shown in Table 1, Panel A, on average our sample firms have significantly positive abnormal returns during the 40-day period prior to the meeting. For example, the size-adjusted (market-adjusted) CAR over the 40-day window prior to the meeting are 0.661% (0.750%). The size-adjusted (market-adjusted) buy-and-hold returns are 0.925% (1.030%).

The result is driven by poorly performing firms. In particular, we split our sample based on whether the 12-month market-adjusted buy-and-hold returns ending 40 days prior to the annual meeting are positive (*Past Winners*) or negative (*Past Losers*), following the definition in Dimitrov and Jain (2011). The pre-meeting 40-day size-adjusted (market-adjusted) CAR are significantly positive at 1.634% (1.777%) for *Past Losers* while slightly negative at -0.311% (-0.276%) for *Past*

¹³ For example, under its proxy voting guidelines, ISS will issue a negative recommendation on a say on pay proposal if the firm includes excise tax gross-ups and modified single triggers in severance agreements entered into or amended during the year prior to the vote (Ertimur et al. 2013). Because these provisions are disclosed in the proxy statement, the negative recommendation should be fully anticipated prior to the release of the ISS report.

Winners. The difference at 1.945% (2.053%) is statistically significant at the 1% level. The results are similar using buy-and-hold returns. As in Dimitrov and Jain (2011), the pre-meeting CAR is higher when past performance is lower. For example, firms in the bottom two deciles in terms of past returns experience a positive size-adjusted CAR of 4.056% and 2.712%, respectively (untabulated).

Next, in Panel B we repeat the analysis using our window of interest, the proxy-to-meeting window. The findings are similar. On average our sample firms experience significantly positive abnormal returns, with the effect being driven by poorly performing firms. For example, the difference in size-adjusted CAR between *Past Losers* and *Past Winners* is 1.353%, statistically significant at the 1% level. The mean and median number of trading days underlying the proxy-to-meeting window is 28, both in the full sample and in the *Past Losers* and *Past Winners* sub-samples (not tabulated). Hence, the returns figures are comparable across sub-samples.

Because the results are qualitatively similar across all four measures of returns, in the rest of the study we tabulate only the results based on size-adjusted proxy-to-meeting CAR and note any differences when using alternative measures.

3.2 Stock returns before annual meetings: the role of contentious votes

Table 2 reports the proxy-to-meeting CAR when there is a *Contentious Director Election*, a *Contentious Management Proposal*, a *Contentious Shareholder Proposal*, or any of the three contentious items (*Contentious Annual Meeting*), using the definitions introduced in Section 2.

In the full sample (Panel A), proxy-to-meeting CAR before contentious director elections are positive and significant, with the magnitude increasing from 0.705% to 1.314% as we tighten the definition of contentious (i.e. ISS withhold recommendations against multiple directors rather than a single director). Importantly, CAR before contentious director elections are also significantly higher than before non-contentious ones (at the 5% or 1% level), with the difference increasing from 0.487% to 1.125% as we tighten the definition of contentious. Similarly, proxy-to-meeting CAR before contentious management proposals are positive and significant, with the magnitude increasing from 0.675% to 3.050% as we tighten the definition of contentious (i.e. increase the voting threshold used to identify contentious management proposals from 15% to 20%, and then to 25%). The difference between contentious and non-contentious management proposals is also positive and significant (at the 5% or 1% level), increasing from 0.448% to 2.707% as we tighten

the definition of contentious. The results are weaker for contentious shareholder proposals. While proxy-to-meeting CAR are significantly positive when we use the 45% voting threshold, where we expect the strongest effect, they are no different than for non-contentious shareholder proposals. Finally, when we combine the three items into a single indicator variable capturing a *Contentious Annual Meeting*, we find that proxy-to-meeting CAR are positive and significant at 1.222% and significantly higher (by 1.129%) than before non-contentious meetings.

Panel B shows that the effects are much more pronounced in the sub-sample of *Past Losers*, as predicted: for all three contentious items, both the proxy-to-meeting CAR before contentious items and the difference in proxy-to-meeting CAR between contentious and non-contentious items are larger. For example, using our main definitions, the difference in proxy-to-meeting CAR between contentious and non-contentious director elections (management proposals) is 1.531% (3.055%), versus 0.849% (1.509%) in the full sample. Notably, the difference in CAR is now significant also between contentious and non-contentious shareholder proposals (at 1.303%, using our main definition based on the 45% threshold). Accordingly, the difference in CAR between contentious and non-contentious annual meetings is now also larger, at 1.952%. Similar to Panel A, across the three items, the difference in CAR between contentious and non-contentious items increases as we tighten the definition of contentious.

Finally, Panel C indicates that the contentious nature of the items on the ballot does not play a significant role in explaining returns before annual meetings among *Past Winners*. Proxy-to-meeting CAR before contentious director elections and management proposals are not significantly different from zero, nor are they different from non-contentious ones. As for contentious shareholder proposals, the proxy-to meeting CAR are slightly negative and significantly more so than before non-contentious ones, regardless of the threshold used, perhaps an indication that at well performing firms the submission of shareholder proposals is generally viewed as a distraction.

Note that we are likely understating the reported differences in returns when we analyze each item separately, for the following reason. For each item, say contentious director elections, the control sample includes meetings without contentious director elections, but it does include meetings where the other two items may be contentious. Only when we look a *Contentious Annual Meeting*, by construction, the control sample (non-contentious annual meetings) only includes meetings without any contentious item.

Overall, our analyses in Table 2 suggest a positive association between pre-meeting abnormal returns and our proxies for contentious meeting, consistent with the notion that investors expect activism via voting to have positive effects, on average, especially in poorly performing firms.

3.3 Stock returns around proxy filings: the role of contentious votes

As noted in Section 2.3.2, we focus on the returns over the proxy-to-meeting window to capture the net effect of the information flow related to the occurrence and expected impact of contentious votes; we do not try to identify individual events because the relevant events may differ from firm to firm and from year to year, and are often unobservable to the researchers. One observable event, available for all firms, is the filing of the proxy statement. The proxy statement includes the items on the agenda at the annual meeting and also contains detailed information (e.g. about governance provisions, executive pay, board actions and characteristics) that may signal an increase in the likelihood of a contentious vote. Thus, in Table 3 we examine the stock price reaction over a 3-day window centered on the proxy filing date, and compare such reaction for contentious and non-contentious items and meetings, similar to Table 2. An important caveat is that because proxy statements contain multiple pieces of information, it is hard to attribute the returns to a specific piece of information (i.e. the release of a proxy statement is by definition a contaminated event). Subject to this caveat, it is comforting to see that Table 3 shows a pattern generally similar to Table 2. There is a positive stock price reaction to proxy filings prior to contentious annual meetings, whereas returns around non-contentious meetings are insignificant, and the difference is positive and significant at 0.22%. The effect is driven by the sub-sample of *Past Losers*, where the difference in returns increases to 0.40% and is present for all three items (although it is not significant at conventional levels for management proposals).

4. Alternative explanations

Before interpreting the univariate evidence in Section 3 as reflecting investors' perceptions of the value of activism via voting we need to address two potential alternative explanations for those findings. First, we need to examine whether firm-years with contentious meetings are systematically different. If so, do these differences explain the higher pre-meeting CAR? Second, we need to account for other events occurring during the proxy-to-meeting window. In particular,

are contentious meetings systematically preceded by the release of favorable news by (or about) the firm? We turn to these questions next.

4.1 Firm characteristics: differences between contentious and non-contentious meetings

The occurrence of a contentious meeting is not a random event. Prior studies identify a number of factors explaining the occurrence of contentious votes (see Ferri, 2012, for a review). However, these studies focus only on one type of contentious item (e.g. only director elections, or only a specific shareholder or management proposal). Hence, it is not clear whether there are common factors explaining the occurrence of contentious meetings in general.

To shed light on any such factors, using the *Contentious Annual Meeting* indicator introduced earlier, in Table 4 we compare firm-years with contentious and non-contentious meetings along a number of dimensions, capturing (i) firm characteristics, such as size (total assets, market capitalization), growth (book-to-market ratio and sales growth), profitability (ROA and change in ROA), leverage, and financial performance (stock returns, returns volatility); (ii) ownership structure (institutional ownership, executives' ownership), (iii) governance characteristics (percentage of independent directors, percentage of coopted directors, CEO-Chairman dual role, directors' poor attendance of board meetings, independent directors' ownership, presence of a classified board, presence of a poison pill, ISS governance ratings, CEO total compensation, CEO excess compensation) that collectively capture firms' agency conflicts (Dey 2008) and might be associated with future excess returns (Larcker, Richardson and Tuna 2007); (iv) information environment (analysts' following, press coverage); and (v) the occurrence of certain events during the year prior to the meeting (hedge fund activism, lawsuits, restatements). The variables are detailed in the Appendix. The sample size depends on the data availability (e.g. most governance and compensation data refer to firms in the S&P 1500).

Panel A indicates that in the full sample, firms facing contentious meetings are somewhat larger (\$8.1 versus \$6.2 billion in total assets) and, have lower sales growth (9.5% versus 11.0%), greater press coverage (58 versus 53 'relevant' articles during the past year, as identified by RavenPack) and higher CEO pay (but not higher excess CEO pay). In spite of their larger size, they also have higher executives' ownership (4.3% versus 3.1%), lower institutional ownership (64.1% versus 72.8%), and slightly lower analysts' following, which collectively may be interpreted as evidence of lower level of monitoring and higher level of entrenchment. Along the

same lines, outside directors' ownership is also somewhat lower. Perhaps unsurprisingly, firms facing contentious meetings score lower in terms of ISS governance ratings (consistent with the role of ISS guidelines in shareholder voting), have a lower percentage of independent boards and are more likely to have directors with poor attendance of board meetings. As for all the other characteristics, the differences are either not significant or economically small (e.g. returns volatility, leverage, lawsuits). The results are generally similar for the subsets of *Past Losers* (right-most column) and *Past Winners* (untabulated).

Panel B, C and D present the same data for the three types of contentious items. It is apparent that contentious shareholder proposals (Panel D) are different from the other contentious items. Firms facing contentious shareholder proposals are much larger (total assets: \$25.9 vs. \$5.8 billions), consistent with prior studies (most shareholder proposals are submitted at S&P 500 firms; e.g. Ferri and Sandino 2009; Ertimur et al. 2010). Accordingly, these firms have larger analyst following (17.8 versus 9.7 analysts), greater press coverage (139 versus 50 articles), lower sales growth (4.6% versus 11.0%), higher ROA (8.5% versus 5.4%), higher leverage, lower returns volatility, higher total CEO pay, more independent boards, more lawsuits. Ownership composition is also different (relative to the full sample of contentious meetings in Panel A), in that institutional ownership is higher and executives' ownership lower (again, likely a reflection of the larger size).

In contrast, relative to firms with non-contentious meetings, firms with contentious director elections and contentious management proposals tend to be *smaller* (see Panel B and C) and, accordingly, have higher returns volatility, lower profitability, lower (higher) institutional (executives') ownership, lower analysts' following. With respect to governance characteristics, interestingly some variables (e.g. ISS governance ratings, percentage of coopted directors) play a role in contentious director elections and contentious management proposals, but not in contentious shareholder proposals, while others play a role in shareholder proposals only (e.g. CEO-chair duality, excess CEO pay; consistent with these items being the subject of, or motivation for, a significant number of shareholder proposals; Ertimur et al. 2011). Poison pills are more frequent only at firms with contentious management proposals (the presence of a poison pill may proxy for a board more inclined to push controversial proposals).

Past performance is an especially important variable. As noted in Section 3.1, among *Past Losers* pre-meeting CAR are higher for firms with worse past stock performance (i.e., firms in the

bottom two deciles of past stock returns). If contentious votes were more likely at firms with the worst performance, our results may be driven by past performance (i.e. reversal in returns after poor performance) rather than by the contentious nature of the meeting. Panel A, however, shows that, in the full sample, stock performance does not differ between contentious and non-contentious meetings. Within *Past Losers*, contentious meetings exhibit worse past stock performance but the difference is fairly small (-25.7% versus -23.3%). The same is true for contentious director elections (Panel B). Firms with contentious shareholder proposals have lower stock returns in the full sample, but actually slightly better among *Past Losers* (Panel D), while the opposite is true for contentious management proposals (Panel C; consistent with evidence in Schoar and Washington (2011) that management strategically submits controversial proposals after periods of good performance). The lack of an economically significant and consistent effect of poor performance in explaining the occurrence of contentious votes may seem surprising, but it is consistent with the shareholder voting literature, which concludes that most activism via voting is driven by a variety of governance issues, with past performance playing a secondary role, mostly for shareholder proposals (Choi et al. 2009; Ertimur et al. 2010; Ferri, 2012).

Table 4 provides two key insights. First, there is no obvious characteristic that is associated with contentious votes *and* likely to explain the abnormal positive returns during the proxy-to-meeting window. The characteristics examined in Table 4 are known to the market, and should thus be priced, prior to the proxy-meeting window. As for risk factors potentially associated with these characteristics, we will control for size, growth and past performance in the multivariate analysis in Section 5 (see discussion in Section 5.3). Second, the factors associated with contentious votes differ substantially between director elections, management proposals and shareholder proposals. Because our results are generally consistent across the three contentious items, this means that, to explain such results, it should be the case that *different* factors associated with different types of contentious votes all happen to explain the abnormal returns during the proxy-to-meeting window. This seems unlikely (we will return to this point in Section 5.2).

4.2 Firm-specific news during the proxy-to-meeting window: differences between contentious and non-contentious meetings

We focus on the proxy-to-meeting window and thus need to control for other firm-specific events occurring in the same window that may affect returns, and especially those potentially

correlated with the occurrence of a contentious meeting. Such events include news disclosed by the firm itself as well as other news regarding the firm.

We examine five sets of firm disclosures: earnings announcements, releases of management forecasts, announcements of stock repurchases, 8-K filings and firm-initiated press releases. Firms facing a contentious meeting may be in the process of restructuring their investment, financing and payout policies in response to increasing shareholder dissatisfaction. These actions may manifest themselves in better-than-expected reported earnings or management forecasts, disclosure of specific value-increasing initiatives in 8-K filings or press releases (e.g. new product releases, restructurings, changes in management team), and/or announcements of stock repurchases.¹⁴

In other words, it is possible that firms facing contentious meetings experience higher pre-meeting returns not because of investors' expectations about the impact of activism via voting, but because the same factors underlying the contentious meeting (performance issues, shareholder pressure) have given them incentive to better perform, signal better prospects and/or take more value-increasing actions relative to other firms.

News released by other entities may also impact the firm's stock price during the proxy-to-meeting window, such as news about competitors' actions, regulatory developments, reports released by credit rating agencies, etc. Of particular concern are events that are known to have a positive effect on stock returns *and* are more likely to take place at firms facing contentious meetings, as such events could explain our evidence of higher CAR prior to contentious meetings. A natural candidate is the filing of a 13-D form by a hedge fund activist. Prior studies document a strong, positive market reaction around 13-D filing dates (e.g. Brav et al. 2008; Klein and Zur 2009; Gow, Shin and Srinivasan 2014). It is plausible that hedge funds would target firms facing contentious meetings in order to exploit shareholders' discontent.

As for other events, rather than trying to separately identify them, we try to capture their overall impact in two ways. First, we measure the number and 'sentiment' of press articles with a 'relevant' mention of the firm (using data from RavenPack - see details in Appendix). Second, we examine sell-side analysts' outputs: to the extent that analysts react to value-relevant news

¹⁴ Announcements of stock repurchases are typically reported in 8-K filings. However, we examine them separately because they are a particularly effective channel for management to signal confidence about future prospects and because of their significant impact on stock prices (e.g. Barth and Kasznik, 1999).

regarding the firm, analysts' forecast revisions and recommendations can be used as a means to control for the effect of these events. Besides, analysts' output reflects independent information production by the analysts and is a channel through which management may convey information to the market. Because of all these reasons, and given their impact on stock returns (e.g. Stickel 1991; Asquith, Mikhail and Au 2005), it is important to examine whether analysts' forecast revisions and recommendations are generally more positive before contentious meetings and, thus, potentially explain the higher proxy-to-meeting CAR.

Table 5 reports the results (see Appendix for details on variables and data sources). For parsimony, we tabulate the results only for the full sample (Panel A) and *Past Losers* (Panel B).¹⁵ Since the higher proxy-to-meeting returns before contentious meetings are driven by poorly performing firms (see Table 2), we focus our comments on *Past Losers* (results for the full sample are generally similar), where concerns with alternative explanations are highest.

Overall, we find no evidence of more positive news prior to contentious meetings in terms of magnitude of *Earnings surprise*, magnitude of management forecast surprise (*Guidance surprise*), and frequency of repurchase announcements (*Share Buyback*).¹⁶ Interestingly, firms facing contentious meetings have a higher number of firm-initiated press releases (consistent with the notion that these firms are undergoing more changes), but a slightly *lower* number of 8-K filings. Since 8-K filings are supposed to cover every event of importance to investors, this suggests that the additional firm-initiated press releases prior to contentious meetings may contain relatively unimportant information. Since firms may strategically bundle news in 8-K filings (Segal and Segal 2016), we also examine the content of those filings. In particular, we look separately at the

¹⁵ The sample size for each analysis depends on data availability. For example, *Guidance surprise* can only be computed for firms issuing guidance. The data on *Earnings surprise*, *Guidance surprise* and *#8-K filings* refers to the subset of firms, respectively, issuing an earnings announcement (71.1% among contentious firms vs 72.5% among non-contentious firms), providing guidance (17.4% vs. 20.9%) and issuing at least one 8-K filing (78.1% vs. 80.2%) during the proxy-to-meeting window. As for analysts' data, 19.7% (14.7%) of firms with contentious (non-contentious) meetings have no analyst coverage. Accordingly, they are less likely to have an analyst report between the proxy filing and the annual meeting (73.0% vs. 78.4%) but contingent on having one, they have a similar number of analysts' reports (7.90 vs. 7.76). We winsorize earnings and guidance surprises, and analyst forecast revisions at 1% each tail to reduce the effect of outliers. However, our inferences are unaffected if we do not winsorize (not tabulated).

¹⁶ While the lack of difference in earnings surprises could be driven by firms with contentious meetings successfully guiding analysts towards reported earnings, we find no observable difference in guidance frequency (not tabulated). Private guidance, while possible, would be in violation of Regulation Fair Disclosure.

frequency of 8-K filings relative to Item 8.01, “Other Events”.¹⁷ This is a discretionary item for reporting any other event (i.e. other than those explicitly mandated by the SEC) that the firm deems of importance to investors and it represents about 25% of all 8-K filings (Lerman and Livnat 2010). If firms facing contentious meetings were experiencing more positive news during the proxy-to-meeting window, Item 8.01 would be an ideal channel for voluntary disclosure of such news. However, we find that 8-K filings with Item 8.01 are slightly *less* frequent ahead of contentious meetings (in unreported tests we find no significant differences for other 8-K items either).

To capture the information content of these disclosures, we also look at the average sentiment of firm-initiated press releases and the market reaction around 8-K filings and repurchase announcements. The average sentiment is slightly *lower* before contentious meetings. The 3-day mean CAR around *Share Buyback*, all 8-K filings and 8-K filings with Item 8.01 is, respectively, 2.35%, 0.67% and 0.50% before contentious meeting and 2.16%, 0.26% and 0.27% before non-contentious meetings.¹⁸ These differences are not statistically significant, except for all 8-K filings, but only at the 10% level (p-value=0.09).

We find no evidence of more positive news prior to contentious meetings in terms of magnitude of analysts’ revisions of next year’s earnings forecasts and frequency of buy and/or strong buy analysts’ recommendations.¹⁹ If anything, analysts seem to offer a slightly less optimistic assessment of future prospects (as evidenced by lower proportion of analysts with buy recommendations). Also, the frequency of 13-D filings by hedge fund activists and the 3-day CAR around them does not differ between contentious and non-contentious meetings. As for press

¹⁷ Starting in August 2004, each 8-K must assign the reported event to one of nine topics (“Sections”) and, within that topic, to a specific item number, following a classification provided by the Securities and Exchange Commission (<http://www.sec.gov/answers/form8k.htm>). Our figures on Item 8.01 in Table 5 only include data subsequent to August 2004.

¹⁸ In the case of 8-K filings, rather than the 3-day CAR centered on the filing date, we compute the CAR between the underlying event date and the 8-K filing date. This is because an 8-K may be filed up to four days after an underlying event (though it is usually filed within two days; see Lerman and Livnat 2010). The underlying event may have been publicly disclosed (e.g. the 8-K refers to a press release issued two days earlier) or not (e.g. the 8-K refers to a board meeting that took place two days earlier). We try to capture both possibilities by measuring CAR from the event date to the filing date. Also, we sum the CAR across all 8-K filings by the same firm, excluding overlapping days. The final CAR figures are comparable across contentious and non-contentious meetings as the number of trading days used for the CAR computations is similar (5.1 trading days).

¹⁹ In unreported tests, we find similar results for analysts’ revisions of earnings forecasts for other horizons (one quarter, 2 years and 3 years ahead). Also, for the subset of firms with available data we find no differences in terms of changes in analysts’ recommendations.

coverage, there are more press articles about firms facing contentious meetings than other firms, but their sentiment is not different.

Finally, we consider the possibility that the higher returns prior to contentious meetings reflect expectations of an imminent or rumored takeover (if such expectations happen to develop during the proxy-to-meeting window). However, in untabulated tests, we find no statistical difference between firms with and without contentious meetings in terms of the frequency of being acquired within 12 months after the meeting (1.67% vs. 1.84%). Besides, subsequently acquired firms do not exhibit higher returns in the proxy-to-meeting window. Therefore, expectations of a takeover do not seem to drive our findings.

Overall, Table 5 suggests that positive firm-specific news do not seem to explain the higher CAR before contentious meetings documented in Section 3. Nevertheless, we will control for their occurrence in the multivariate analysis that follows. Of course, it remains possible that our analysis fails to capture all news potentially affecting a firm's stock price during the proxy-to-meeting window, though it is important to highlight that the disclosures examined in Table 5 account for a significant portion of the variation in quarterly stock returns (Beyer, Cohen, Lys and Walther 2010).

5. Stock returns before contentious meetings: multivariate evidence

5.1 Determinants of proxy-to-meeting CAR: a multivariate analysis

Table 6 reports the results of an OLS regression of the proxy-to-meeting CAR on our *Contentious Annual Meeting* indicator, control variables capturing disclosure and events taking places during the proxy-to-meeting window (as identified in Section 4.2) and key firm characteristics usually associated with risk factors, namely past stock performance, size (log of total assets) and growth (book-to-market ratio). In all models, we control for year-quarter fixed effects: that is, we include thirty-six indicators for each calendar quarter-year between 2003 and 2011, to capture both time trends in returns and the fact that most annual meetings occur in the second quarter (our regression sample ends in 2011 due to management forecast data availability from FirstCall; including 2012 data without management forecast revisions does not affect our conclusions). We also control for the (firm-specific) number of trading days in the proxy-to-meeting window. We cluster standard errors by firm and year-quarter to account for cross-sectional

and time-series correlations across error terms (Petersen 2009; Gow, Taylor and Ormazabal 2010). In column 1 we present the results for the full sample, in column 2 for the *Past Losers* and in column 3 for the *Past Winners*.²⁰

Across the three columns, we find a strong positive association between the proxy-to-meeting CAR and our measures of positive firm-specific news. The coefficients of *Earnings surprise*, *Guidance surprise*, *Forecast Revision 1-year* and *Buy Recommendation* are positive and statistically significant. The value relevance of these items is consistent with prior research (Beyer et al. 2010). The coefficient of *13-D filing* is also positive and significant, as in prior research on hedge fund activism (e.g. Brav et al. 2008). A more positive sentiment of press articles about the firm (*Press Article Sentiment*) is associated with higher returns, while the sentiment of firm-initiated press releases (*Press Release Sentiment*) does not exhibit a statistically significant association. As for firm characteristics, growth options and size are generally negatively related to the pre-meeting CAR, though size (book-to-market ratio) is only significant among *Past Winners* (*Past Losers*). Past performance is negatively related to proxy-to-meeting CAR but the association is not significant, further alleviating concern that our results are driven by poorly performing firms experiencing a returns reversal during the proxy-to-meeting window.

More relevant to our research question, both in the full sample and among *Past Losers*, the coefficient of *Contentious Annual Meeting* remains positive and significant, respectively at 0.011 (p-value=0.059) and 0.013 (p-value=0.038). For *Past Winners*, consistent with the univariate analyses, the coefficient is positive (0.005) but not significant (p-value=0.132).²¹ Hence, consistent

²⁰ For continuous variables only available in certain subsets, we use indicator variables to denote when they are non-missing and set the continuous variable to zero if they are missing. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Forecast Revision Indicator*, and *Recommendation Indicator* are similarly defined. Also, with regard to analysts-related measures, results are similar if we use *Forecast revision* for one quarter ahead, or 2-year ahead, or 3-year ahead instead of 1-year ahead. Results are also similar if we replace *Buy* with *Strong Buy* recommendations.

²¹ Note that the estimated effects may be understated if some of our control variables are related to activism via voting. For example, if firms with contentious meetings experienced positive news during the pre-meeting window because of actions taken in response to activists' pressure, controlling for those news would reduce the estimated valuation impact of the contentious meeting indicator. Another example is the inclusion of year and quarter fixed effects. Their inclusion controls for the possibility that a disproportionately high number of contentious meetings take place in years and quarters where pre-meeting returns happen to be particularly high *and* that this occurs for reasons unrelated to the perceived impact of activism via voting. To the extent that pre-meeting returns are especially high in certain periods because the perceived value of activism via voting is higher in those periods, the inclusion of year and quarter fixed effects will bias downward the coefficient of *Contentious Annual Meeting*.

with the univariate analyses, the multivariate tests suggest that investors expect contentious votes to have beneficial effects on firm value, on average, with the effect largely driven by poorly performing firms, where activism via voting is more likely to have an impact.

5.2 Do returns before contentious meetings reflect firm characteristics?

To further ensure that our results are not driven by differences between firms with and without contentious meetings, we employ an entropy balancing technique. Entropy balancing consists of assigning weights to each observation in the control sample (here, non-contentious meetings) so as to achieve balance in terms of distributional properties of the matching variables across the treatment and control groups (Hainmueller 2012; McMullin and Schonberger 2015). For example, if our goal was to match contentious and non-contentious meetings only on total assets, the entropy balance technique would reweight each non-contentious meeting observation so that the mean, variance and skewness of total assets be indistinguishable between contentious and non-contentious meetings. We choose our matching variables from Table 4. Specifically, we balance the two samples based on total assets, market capitalization, book-to-market ratio, leverage, sales growth, ROA, change in ROA, past returns, returns volatility, institutional ownership, analyst following, press coverage, the incidence of 13-D filings, restatements, and securities lawsuits. Those variables result in minimal loss of observations, unlike the other (governance-related) variables in Table 4.²² In untabulated results, we confirm that the entropy matching technique converges and achieves balance in terms of the three moments for all the listed covariates. Table 6, Panel B, reports the regression results (for parsimony, we suppress all the control variables). The coefficient on *Contentious Annual Meeting* remains positive and significant both in the full sample (0.011, with p-value=0.073) and within *Past Losers*, where the magnitude is higher than in Panel A (0.017, with p-value=0.063).

Next, to examine whether the result is driven by one contentious item rather than the overall set, in Panel C we replace the *Contentious Annual Meeting* indicator with indicators for each of the three types of contentious items: director election, shareholder proposals and management

²² In untabulated tests, we also perform entropy balancing by adding directors' meeting attendance, board independence and ISS governance ratings to the matching variables. We choose those variables because their means differ significantly between contentious and non-contentious meetings, and because they come from the same data source (thus minimizing the loss of observations). We obtain qualitatively similar results to those reported in Table 6, Panel B.

proposals. Among *Past Losers*, all three coefficients are positive and significant, with magnitudes ranging from 0.012 to 0.014. The consistency in results across the three items further alleviates the concerns that our results may reflect firms characteristics associated with contentious meetings and with returns. This is because, as noted in Section 4.1 (see Table 4, Panel B-D), the determinants of each type of contentious items are not the same. Hence, to explain our results, it must be that the *different* determinants of each contentious item, for some reason, all predict positive abnormal returns during the proxy-to-meeting window. This seems unlikely. Overall, these tests give us some comfort that the higher returns prior to contentious meetings are not simply the manifestation of firm characteristics or other factors associated with the occurrence of contentious votes.²³

5.3 Do returns before contentious meetings reflect a risk factor?

As in similar work, a caveat to our interpretation of the results is that the abnormal returns may reflect a risk factor. While it is impossible to fully rule out a risk explanation, four considerations make it unlikely. First, our multivariate analyses control for firm characteristics typically viewed as proxies for risk factors (size, book-to-market, past performance). Second, as noted earlier, our results hold when we use entropy balancing to better match firms with contentious and non-contentious meetings along observable characteristics, potentially associated with risk factors. Third, in Panel D, we re-run the test in Panel A using abnormal returns adjusted for Fama-French risk factors as dependent variable (instead of size-adjusted abnormal returns).²⁴ The coefficient

²³ To further address endogeneity concerns, we run a two-stage instrument-variable (IV) model (not tabulated). We use as plausibly exogenous instrument the percentage of two-digit SIC peers with a contentious annual meeting in the same year (but before the firm of interest's own meeting). In the first stage probit model, we find a positive and significant association between industry-level contentiousness and the likelihood that a firm have a contentious meeting of its own. In the second stage, when we replace the contentious meeting indicator with its predicted value from the first stage, we continue to find a positive and significant coefficient (including for past winners). While the IV test gives us additional assurance that endogeneity does not drive our main results, we acknowledge that our instrument may not meet the exclusion criterion, if industry-level contentiousness is directly associated with the firm's pre-meeting CAR. Hence, we caution against relying too much on this specific test.

²⁴ More specifically, we estimate the following model for each annual meeting in our sample, using daily data over the calendar year preceding the meeting:

$$R_i - R_f = \alpha + \beta_1(R_{mkt} - R_f) + \beta_2SMB + \beta_3HML + \beta_4UMD + \varepsilon$$

Where R_i is the daily return for firm i , R_f the risk-free rate, R_{mkt} the CRSP value-weighted market return, and SMB, HML and UMD the size, book-to-market and momentum factors. We use the estimated α , β_1 , β_2 , β_3 , and β_4 to compute expected returns on a given day for firm i 's shares. We then subtract the expected CAR from the actual CAR to obtain a four-factor-adjusted daily return, and add it up over the proxy-to-meeting window. Our conclusions remain unaffected when we vary the estimation period (for example, the 365-day window ending prior to the proxy meeting window) or exclude the intercept from the expected returns (untabulated).

on *Contentious Annual Meeting* remains positive and significant both in the full sample and among *Past Losers*, where the coefficient is only slightly smaller (at 0.0117 versus 0.0125 in Panel A).

Finally, we examine returns in the periods immediately contiguous to the proxy-to-meeting window. Figures 1, 2 and 3 plot the CAR for the 40-day window prior to the meeting (and thus including our proxy-to-meeting window) and the two adjacent, same-length windows, i.e. (-80,-41) and (+1,+40), respectively for the full sample, for *Past Losers* and for *Past Winners*. Examining the full sample, Fig.1 shows that the 40-day CAR before contentious meetings, at 1.86%, are higher than in the prior and subsequent 40-day windows (respectively, 0.08% and -0.30%). The differences are statistically significant at the 1% level (untabulated). Turning to *Past Losers*, we can only examine the window subsequent to the contentious meetings as the returns prior to the (-40,0) window are used to define the group (and are therefore negative by definition). As shown in Fig.2, the (-40,0) CAR before contentious meetings, at 3.78%, are higher than in the subsequent 40-day window (0.28%), with the difference statistically significant at the 1% level (untabulated). This evidence suggests that the difference in returns between contentious and non-contentious meetings is unique to the window immediately prior to the meeting. Hence, for an omitted risk factor to explain our results, it would need to be present in our proxy-to-meeting window, but not in the adjacent periods and also be somehow correlated to, but not driven by, the contentious votes.

5.4 Are returns before contentious meetings the result of strategic news timing?

Management knows ahead of time whether there will be contentious items on the ballot.²⁵ Thus, the release of positive news prior to contentious meetings may be the result of strategic timing (e.g. management shifting earnings from the prior quarter or borrowing earnings from next quarter; Dimitrov and Jain 2011), perhaps to influence the vote. Based on the evidence in Table 5, it does not appear that positive abnormal returns prior to contentious meetings are due to an unusual release of good news before such meetings. Table 6 explicitly controls for disclosure events in the multivariate analysis. Besides, Fig. 1 and 2 do not suggest any obvious price reversal.

²⁵ Shareholder proposals must be submitted to the firm 120 days before the proxy statement is mailed to shareholders. As for director elections and other management proposals, management knows long before the proxy filing date any proposals that it intends to submit. Also, management knows of any past events that, once disclosed in the proxy statement, may trigger a negative vote on director elections and management proposals (e.g. poor directors' attendance at board meetings, controversial compensation provisions).

Nonetheless, to further investigate the possibility of strategic disclosures, we replicate our multivariate tests using an extended window from the proxy filing date to 40 days after the annual meeting, similar to Dimitrov and Jain (2011). If firms facing contentious meetings strategically accelerate the release of good news that would be otherwise released shortly after the meeting and/or defer bad news that would have been released prior to the meeting, then we should observe no results (i.e. no differences in returns between contentious and non-contentious meetings) over the extended time period. That is, the coefficient of *Contentious Annual Meeting* for the extended window should not be significantly different from zero. However, as shown in Table 7, for both the full sample and the subset of *Past Losers*, the coefficient, at 0.016 and 0.020, continues to be positive and statistically significant (the results are similar if we use a 80-day window centered on the annual meeting date).

Combined, our tests suggest that the higher pre-meeting returns for poorly performing firms facing a contentious meeting are not driven by strategic timing of disclosures, firm characteristics or risk factors, and do not reverse immediately after the meeting. The pattern we document is consistent with investors expecting activism via voting to have a positive effect on firm value at poorly performing firms, on average.

6. Conclusions

We examine investors' perceptions of the value of shareholder activism via voting. To identify instances of activism via voting, we focus on annual meetings with at least one ballot item where a substantial fraction of shareholders is expected to vote against management's voting recommendation, a signal that shareholders are increasing their monitoring activity. We define such items and the underlying meeting as "contentious". Using a sample of almost 28,000 meetings between 2003 and 2012, we examine stock returns over the period between the proxy filing and the annual meeting, when investors learn about the contentious nature of the meeting and form expectations about its likely impact on firm's behavior. Using various definitions of contentious meetings, we find that abnormal stock returns prior to contentious meetings are significantly positive and higher than prior to non-contentious meetings. These higher abnormal returns increase with the contentiousness of the meeting, are more pronounced in firms with poor past performance (i.e. firms under greater pressure to respond), do not reverse immediately after the meeting

(inconsistent with strategic timing of positive disclosures prior to a contentious meeting) and persist after controlling for firm-specific news, proxies for risk factors and various firm characteristics. Our results are consistent with investors expecting shareholder activism via voting to have a positive impact on firm value, on average. As such, they contribute to the research and policy debate on the value of shareholder activism.

Our findings are subject to several caveats. While firms with contentious meetings do not differ significantly in terms of past performance (and we explicitly control for past performance), it remains possible that firms targeted by activism via voting may be firms that are performing poorly along dimensions not captured by traditional performance metrics, but identified by voting shareholders. In that case, reversal of the poor performance could explain the positive returns prior to the meeting. Also, similar to other event studies, we capture investors' expectations of the value of activism via voting, rather than its long-term impact on firm value. It is possible that these expectations are subsequently disappointed. However, one benefit of our setting is that investors have seen these contentious votes in action at many firms over the years. In other words, investors' reaction to news of a contentious vote should be informed by investors' experience with the effect of similar contentious votes at other firms. Finally, as in similar work, and in spite of our best efforts, it is impossible to fully rule out a risk explanation. However, as noted earlier, for an omitted risk factor to explain our results, it would need to be present in our proxy-to-meeting window, but not in the adjacent periods and also be somehow correlated to, but not driven by, the contentious votes.

Appendix: Variable Definitions

Variable	Definition ^a
<i>Past Winners (Losers)</i>	Firms with a positive (negative) buy-and-hold market-adjusted return over the 12-month period ending 40 days prior to the annual shareholder meeting, where the market return is based on the CRSP value-weighted index. Buy-and-hold returns are winsorized at the 1 st and 99 th percentile.
<i>Size-adjusted CAR</i>	Sum of daily returns over the window from the proxy statement filing to the annual meeting minus daily returns on the firm's NYSE/AMEX/NASDAQ market capitalization decile (as per CRSP) over the same period.
<i>Market-adjusted CAR</i>	Sum of daily returns over the window from the proxy statement filing to the annual meeting minus daily returns on the CRSP value-weighted market index over the same period.
<i>Size-adjusted B&H</i>	Buy-and-hold return minus the buy-and-hold return on the firm's NYSE/AMEX/NASDAQ market capitalization decile (as per CRSP) over the window from the proxy statement filing to the annual meeting.
<i>Market-adjusted B&H</i>	Buy-and-hold return minus the buy-and-hold return on the CRSP value-weighted market index over the window from the proxy statement filing to the annual meeting.
<i>Contentious Director Election</i>	Indicator equal to one if more than one-third of the directors up for election at the annual meeting receive a withhold recommendation from ISS
<i>Contentious Management Proposal</i>	Indicator equal to one if at the annual meeting there will be a vote on a type of management proposal averaging more than 20% voting opposition in our sample period.
<i>Contentious Shareholder Proposal</i>	Indicator equal to one if at the annual meeting there will be a vote on a type of shareholder proposal averaging more than 45% voting support in our sample period.
<i>Contentious Annual Meeting</i>	Indicator equal to one if either Contentious Director Elections, Contentious Management Proposal or Contentious Shareholder Proposal are equal to one.
<i>Total Assets</i>	Total assets as of the end of the previous fiscal year, from Compustat.
<i>Market Cap</i>	Stock price times shares outstanding as of the end of the previous fiscal year, from Compustat.
<i>Book-to-Market</i>	Book value of shareholders' equity divided by market capitalization of equity as of the end of the previous fiscal year, from Compustat.
<i>Leverage</i>	Sum of long-term debt and debt in current liabilities divided by total assets as of the end of the previous fiscal year, from Compustat.

<i>Sales Growth</i>	Total revenue for previous fiscal year minus total revenue for the preceding fiscal year, scaled by total revenue for the preceding fiscal year, from Compustat.
<i>ROA</i>	Earnings before interest and taxes divided by total assets as of the end of the previous fiscal year, from Compustat.
<i>Change in ROA</i>	ROA minus one-year lagged ROA.
<i>Past Return</i>	12-month buy-and-hold market-adjusted returns ending 40 days before the annual shareholder meeting.
<i>Volatility</i>	Standard deviation of monthly market-adjusted returns over the previous fiscal year, from CRSP.
<i>Institutional Ownership</i>	Percentage of shares outstanding held by institutional investors, measured as of the latest 13-F filing date prior to the proxy statement filing, from Thomson Reuters Institutional Holdings.
<i>Executive Ownership</i>	Total shares held by top 5 executives by compensation, scaled by shares outstanding as of the end of the previous fiscal year, from ExecuComp.
<i>% Independent Directors</i>	Percentage of board members classified as independent ('I') as of the end of the previous fiscal year, from ISS/RiskMetrics.
<i>% Coopted Directors</i>	Percentage of directors classified as coopted, as per Coles et al. (2014). Data available at https://sites.temple.edu/lnaveen/data/
<i>CEO-Chairman</i>	Indicates whether the CEO is also chairman of the board, from Execucomp.
<i>Poor Meeting Attendance</i>	Percentage of directors who attended less than 75% of meetings during the previous fiscal year, from ISS/RiskMetrics.
<i>Independent Director Ownership</i>	Total shares held by directors classified as independent ('I'), scaled by shares outstanding, from ISS/RiskMetrics.
<i>Classified Board</i>	Indicates whether the firm has a classified board, from ISS/RiskMetrics.
<i>Poison Pill</i>	Indicates whether the firm has a poison pill in place, from ISS/RiskMetrics.
<i>ISS Governance Rating</i>	Standardized ISS QualityScore for the firm.
<i>Total CEO Pay</i>	CEO total annual compensation (TDC1), from Execucomp.
<i>Excess CEO Pay</i>	Percentage residual CEO annual compensation, estimated as in Core, Guay and Larcker (2008), from Execucomp.
<i>Analyst Following</i>	Number of unique analysts issuing an EPS forecast for the firm between the end of the previous fiscal year and the proxy statement filing date, from I/B/E/S.
<i>Press Articles</i>	Number of Dow Jones news items mentioning the firm classified as "Full Article" and with a relevance score of 90 or more, from RavenPack. Calculated over the one-year period preceding the proxy statement filing in Table 4, and between the proxy statement filing and annual meeting in Tables 5 and 6.

<i>13-D Filing</i>	Indicator equal to one if a 13-D form is filed. Calculated over the one-year period preceding the proxy statement filing in Table 4, and between the proxy statement filing and annual meeting in Tables 5 and 6. Data obtained from the authors of Brav et al. (2008).
<i>Restatements</i>	Number of restatements filed by the firm during the one-year period preceding the proxy statement filing, as per Audit Analytics.
<i>Lawsuits</i>	Number of 10b-5 shareholder class action lawsuits filed against the firm during the one-year period preceding the proxy statement filing, as per the Securities Class Action Services from ISS.
<i>Earnings Surprise Indicator</i>	Indicates whether there is data available to compute <i>Earnings Surprise</i> .
<i>Earnings Surprise</i>	Actual reported EPS minus the most recent analyst consensus forecast, scaled by stock price as of the end of the latest fiscal period. Both actual and forecast are from I/B/E/S. <i>Earnings surprise</i> is winsorized at the 1 st and 99 th percentile.
<i>Guidance Indicator</i>	Indicates whether the firm issued guidance, as per FirstCall.
<i>Guidance Surprise</i>	Management EPS forecast minus the most recent analyst consensus forecast for the same horizon, scaled by stock price as of the end of the latest fiscal period. Management forecasts are from FirstCall and analyst forecasts from I/B/E/S. For management forecasts, the midpoint is used for range forecasts, and the lower or upper bound for open-ended range forecasts. Annual forecasts are divided by four. <i>Guidance surprise</i> is winsorized at the 1 st and 99 th percentile.
<i>Press Releases</i>	Number of Dow Jones news items classified as “Press-Release” between the proxy statement and annual meeting and with a relevance score of 90 or more, from RavenPack.
<i>Press Release Sentiment</i>	Average CSS (transformed so that a neutral sentiment equals zero) across all press releases as described above, from RavenPack. Set to zero if there is no press release during the window.
<i># 8-K filings</i>	Number of Form 8-K filings, as retrieved from the SEC EDGAR system.
<i># 8-K filings 8.01 Item</i>	Number of Form 8-K filings containing an 8.01 Item (“Other Events”), as retrieved from the SEC EDGAR system. The new item classification only applies for 8-K forms filed after August 23, 2004.
<i>Share Buyback</i>	Indicates whether the firm announced its intent to buy back shares during the window between the proxy filing and the annual meeting, as per Thomson SDC.
<i>Forecast Revision Indicator</i>	Indicates whether there is data available to compute <i>Forecast Revision</i> .
<i>Forecast Revision</i>	Average EPS forecast based on the most recent forecast issued by each analyst minus the previous average EPS forecast issued by the same analysts (up to a year prior to the annual shareholder meeting), scaled by stock price as of the end of the most recent fiscal period. ‘1-year’ is based on I/B/E/S forecast period indicator (FPI) 1.

<i>Recommendation Indicator</i>	Indicates whether there is data available to compute <i>Buy Recommendations</i> .
<i>(Strong) Buy Recommendation</i>	Proportion of analyst recommendations that are either a 'Buy' or 'Strong Buy' (only 'Strong Buy'), based on the I/B/E/S 1-5 scale, where 1=Strong Buy and 2=Buy.
<i>Press Article Sentiment</i>	Average CSS (transformed so that a neutral sentiment equals zero) across all <i>Press Articles</i> as described above, from RavenPack. Set to zero if there is no press article during the window.
<i>Firm Size</i>	Natural logarithm of total assets as of the end of the previous fiscal year.

^a Unless otherwise stated, the unit of analysis is the window from the proxy statement filing to the annual shareholder meeting.

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Table 1: Stock Returns prior to Annual Shareholder Meetings

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. In Panel A returns are measured over the 40-trading-day window ending on the annual shareholder meeting. In Panel B returns are measured over the firm-specific window from the proxy filing date to the annual meeting date (proxy-to-meeting window). They are either cumulative abnormal returns (CAR) or buy-and-hold returns (B&H) and are adjusted either for size (based on the CRSP market capitalization deciles) or market (based on the CRSP value-weighted index) returns. The first column reports the results for the full sample. In the second and third columns the sample is split between Past Losers and Past Winners based on whether the 12-month buy-and-hold market-adjusted returns ending 40 days prior to the annual meeting are negative or positive. ***, **, * indicates means or differences significantly different from zero at the 0.01, 0.05 or 0.10 level, respectively.

Panel A: 40-day window

	Full Sample (N=27,834)	Past Losers (N=13,871)	Past Winners (N=13,943)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.661 ***	1.634 ***	-0.311 **	1.945 ***
Market-adjusted CAR (%)	0.750 ***	1.777 ***	-0.276 **	2.053 ***
Size-adjusted B&H (%)	0.925 ***	2.179 ***	-0.325 **	2.504 ***
Market-adjusted B&H (%)	1.030 ***	2.357 ***	-0.293 **	2.650 ***

Panel B: Proxy-to-meeting window

	Full Sample (N=26,283)	Past Losers (N=13,095)	Past Winners (N=13,168)	Difference Past Losers – Past Winners
Size-adjusted CAR (%)	0.366 ***	1.043 ***	-0.310 ***	1.353 ***
Market-adjusted CAR (%)	0.381 ***	1.099 ***	-0.336 ***	1.435 ***
Size-adjusted B&H (%)	0.541 ***	1.340 ***	-0.256 **	1.596 ***
Market-adjusted B&H (%)	0.530 ***	1.375 ***	-0.313 ***	1.688 ***

Table 2: Stock Returns prior to Contentious Annual Shareholder Meetings

This table reports mean stock returns prior to annual shareholder meetings for Russell 3,000 firms between 2003 and 2012. Returns are cumulative abnormal returns (CAR) adjusted for size (based on the CRSP market capitalization deciles) over the firm-specific window from the proxy filing date to the annual meeting date (proxy-to-meeting window). We compare mean returns prior to annual meetings classified as contentious to non-contentious ones, with alternative classifications based on the characteristics on the three items on the ballot (director elections, management proposals, shareholder proposals) or their combinations, as follows:

Contentious Director Election: any director election where ISS issues a withhold recommendation for more than one third of directors up for election (bottom row). We also present the results using two alternative definitions, based on whether ISS issues a withhold recommendation for at least one director or at least two directors (top two rows). The sample size for this analysis is 26,125 firm-meetings versus 26,283 in Table 1, Panel B, because in some cases we cannot determine whether the director election is contentious or not due to lacking or incomplete information in the ISS Voting Analytics dataset.

Contentious Management Proposal: a type of management proposal that has historically averaged more than 20% voting opposition (middle row). We also present the results using a 15% (top row) and 25% (bottom row) voting threshold. The sample size for this analysis is 23,738 firm-meetings versus 26,283 in Table 1, Panel B, because some meetings have missing information regarding management proposals in the ISS Voting Analytics dataset (our results are similar if we re-classify these meetings as non-contentious and use all 26,283 observations in Table 1, Panel B).

Contentious Shareholder Proposal: a type of shareholder proposal that has historically averaged more than 45% voting support (bottom row). We also present the results using a 30% and 40% threshold and based on a definition where a meeting is contentious if there is at least one governance-related shareholder proposal up for a vote (top three rows).

Contentious Annual Meeting: an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one.

Panel A includes the full sample while Panel B and Panel C include, respectively, only Past Losers and Past Winners (as defined in Table 1). Across all panels, the returns before contentious and non-contentious meetings are generally comparable because the number of trading days in the proxy-to-meeting window is similar (about 27-28 days).

In the last column, ***, **, * indicate differences in means significantly different from zero at the 0.01, 0.05 and 0.10 level, respectively. In the third and fourth columns, † indicates mean returns that are not significantly different from zero at the 0.10 level.

Table 2 - continued

Panel A: Full sample

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	7,316	18,809	0.705	0.218	0.487**
At least two directors	3,932	22,193	1.076	0.227	0.849***
> 1/3 of directors	3,849	22,276	1.314	0.189	1.125***
<i>Management Proposals</i>					
Historical dissent > 15%	8,135	15,603	0.675	0.227	0.448**
Historical dissent > 20%	860	22,878	1.835	0.326	1.509***
Historical dissent > 25%	333	23,405	3.050	0.343	2.707***
<i>Shareholder Proposals</i>					
At least one proposal	2,162	24,121	0.405 [†]	0.362	0.043
Historical support > 30%	1,593	24,690	0.455 [†]	0.360	0.095
Historical support > 40%	1,434	24,849	0.403 [†]	0.364	0.039
Historical support > 45%	1,226	25,057	0.639	0.353	0.286
<i>Annual Meeting</i>	5,577	18,625	1.222	0.093 [†]	1.129***

Panel B: Past Losers

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections – ISS Withhold for:</i>					
At least one director	3,655	9,369	1.552	0.808	0.744**
At least two directors	2,023	11,001	2.310	0.779	1.531***
> 1/3 of directors	1,967	11,057	2.459	0.760	1.699***
<i>Management Proposals</i>					
Historical dissent >15%	3,822	8,012	1.781	0.706	1.075***
Historical dissent > 20%	397	11,437	4.006	0.951	3.055***
Historical dissent > 25%	191	11,643	4.368	0.999	3.369**
<i>Shareholder Proposals</i>					
At least one proposal	1,097	11,998	1.549	0.996	0.553
Historical support > 30%	801	12,294	1.883	0.988	0.895
Historical support > 40%	716	12,379	2.033	0.985	1.048*
Historical support > 45%	608	12,487	2.285	0.982	1.303**
<i>Annual Meeting</i>	2,797	9,262	2.522	0.570	1.952***

Table 2 - continued

Panel C: Past Winners

Criteria for Contentious	Contentious N	Non-Cont. N	Contentious CAR %	Non-Cont. CAR %	Difference
<i>Director Elections –</i>					
<i>ISS Withhold for:</i>					
At least one director	3,647	9,434	-0.148 [†]	-0.370	0.222
At least two directors	1,901	11,180	-0.216 [†]	-0.324	0.108
> 1/3 of directors	1,876	11,205	0.125 [†]	-0.381	0.506
<i>Management Proposals</i>					
Historical dissent >15%	5,435	7,931	0.062 [†]	-0.158 [†]	0.220
Historical dissent > 20%	726	12,640	0.545 [†]	-0.104 [†]	0.649
Historical dissent > 25%	161	13,205	1.620 [†]	-0.090 [†]	1.710
<i>Shareholder Proposals</i>					
At least one proposal	1,254	13,545	-0.641	-0.055 [†]	-0.586*
Historical support > 30%	932	13,867	-0.888	-0.052 [†]	-0.836**
Historical support > 40%	842	13,957	-1.126	-0.043 [†]	-1.083***
Historical support > 45%	741	14,058	-0.912	-0.062 [†]	-0.850*
<i>Annual Meeting</i>	2,958	9,879	-0.082 [†]	-0.403	0.321

Table 3: Stock Returns around Proxy Filing Dates prior to Annual Shareholder Meetings

This table reports mean 3-day cumulative abnormal returns (CAR) around proxy filing dates prior to contentious and non-contentious annual shareholder meetings for Russell 3,000 firms between 2003 and 2012, using the following alternative definition of contentious meetings:

Contentious Director Election: any director election where ISS issues a withhold recommendation for more than one third of directors up for election.

Contentious Management Proposal: a type of management proposal that has historically averaged more than 20% voting opposition.

Contentious Shareholder Proposal: a type of shareholder proposal that has historically averaged more than 45% voting support.

Note: for all three contentious items above, the non-contentious control sample includes only meetings without *any* contentious item.

Contentious Annual Meeting: an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one; and equal to zero if all three items' indicators are equal to zero.

Past Losers and *Past Winners* are defined as in Table 1. In the last column, ***, **, * indicate differences in means significantly different from zero at the 0.01, 0.05 and 0.10 level, respectively. In the third and fourth columns, † indicates mean returns that are not significantly different from zero at the 0.10 level.

	Contentious	Non-Cont.	Contentious	Non-Cont.	Difference
	N	N	CAR %	CAR %	
Full Sample					
Director Elections	3,839	20,541	0.31%	0.05% †	0.26% ***
Management Proposals	858	18,729	0.19% †	0.05% †	0.14%
Shareholder Proposals	1,225	20,677	0.24%	0.05%	0.19%
Annual Meeting	5,564	18,597	0.27%	0.05% †	0.22% ***
Past Losers					
Director Elections	1,969	10,235	0.54%	0.11%	0.43% ***
Management Proposals	397	9,323	0.43% †	0.11%	0.32%
Shareholder Proposals	608	10,299	0.51%	0.12%	0.39% *
Annual Meeting	2,799	9,262	0.51%	0.11%	0.40% ***
Past Winners					
Director Elections	1,870	10,306	0.07% †	-0.01% †	0.08%
Management Proposals	471	9,407	-0.02% †	-0.01% †	-0.01%
Shareholder Proposals	617	10,378	-0.02% †	-0.01% †	-0.01%
Annual Meeting	2,765	9,335	0.02% †	-0.01% †	0.03%

Table 4: Characteristics of Firms with Contentious Annual Meetings

Table 4 reports univariate comparisons of various firm characteristics measured before contentious and non-contentious annual meetings. An annual meeting is defined as contentious if either Contentious Director Elections, or Contentious Management Proposals or Contentious Shareholder Proposals are equal to one (see Table 2 and Appendix for definitions). Panel A reports variable means for contentious versus non-contentious annual meetings. Panel B reports variable means for meetings with contentious director elections versus non-contentious annual meetings. Panel C reports variable means for meetings with contentious management proposals versus non-contentious annual meetings. Panel D reports variable means for meetings with contentious shareholder proposals versus non-contentious annual meetings. In all panels, the first three columns are based on the full sample, and the last three columns on Past Losers, i.e. firms experiencing negative market-adjusted buy-and-hold returns over the 12-month period ending 40 days prior to the annual meeting. Sample size varies based on data availability. In particular, governance characteristics and executive ownership are available only for subsets of the main sample. See Appendix for details on variable sources and definitions.

Panel A: Contentious versus non-contentious meetings

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	8112.8	6217.7	1895.1 ***	8618.3	6473.1	2145.2 ***
Market Cap	6702.0	4544.9	2157.1 ***	6504.5	4130.3	2374.2 ***
Book-to-Market	0.5498	0.5458	0.004	0.6347	0.6259	0.0088
Leverage	0.2385	0.2222	0.0163 ***	0.2446	0.2245	0.0201 ***
Sales Growth	0.0947	0.1101	-0.0154 ***	0.0817	0.1013	-0.0196 ***
ROA	0.0507	0.0529	-0.0022	0.0363	0.0393	-0.003
Change in ROA	0.0065	0.0092	-0.0027	-0.0077	-0.0027	-0.005
Past Return	0.0873	0.0947	-0.0074	-0.2567	-0.2328	-0.0239 ***
Volatility	0.1178	0.1067	0.0111 ***	0.1169	0.1037	0.0132 ***
<i>Ownership composition</i>						
Institutional Ownership	0.6405	0.7275	-0.087 ***	0.6392	0.7213	-0.0821 ***
Executive Ownership	0.0430	0.0308	0.0122 ***	0.0407	0.0299	0.0108 ***
<i>Governance characteristics</i>						
% Independent Directors	0.7185	0.7679	-0.0494 ***	0.7171	0.7667	-0.0496 ***
% Coopted Directors	0.4600	0.4671	-0.0071	0.4572	0.4715	-0.0143
CEO-Chairman	0.7457	0.7299	0.0158	0.7553	0.7427	0.0126
Poor Meeting Attendance	0.1462	0.0951	0.0511 ***	0.1376	0.1001	0.0375 ***
Indep. Dir. Ownership	0.0109	0.0133	-0.0024 ***	0.0111	0.0138	-0.0027 ***
Classified Board	0.5444	0.5408	0.0036	0.5295	0.5378	-0.0083
Poison Pill	0.3754	0.3751	0.0003	0.3722	0.3625	0.0097
ISS Governance Rating	-0.3387	0.1323	-0.471 ***	-0.3515	0.1087	-0.4602 ***
Total CEO Pay	6651.9	5067.5	1584.4 ***	6561.0	4745.8	1815.2 ***
Excess CEO Pay	0.0037	0.0238	-0.0201	0.0081	0.0011	0.00698
<i>Information environment</i>						
Analyst Following	9.578	10.101	-0.523 ***	9.899	10.242	-0.343 *
Press Articles	57.945	53.297	4.648 ***	59.205	51.987	7.219 ***
<i>Notable events</i>						
13-D Filings	0.0192	0.0208	-0.0016	0.0258	0.0268	-0.001
Restatements	0.0649	0.0594	0.0055	0.0401	0.0331	0.007
Lawsuits	0.0280	0.0217	0.0063 **	0.0683	0.0655	0.0028

Table 4 - continued**Panel B: Contentious director elections versus non-contentious meetings**

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	3342.5	5859.3	-2516.8 ***	3733.3	6094.3	-2361.0 ***
Market Cap	2221.0	4262.8	-2041.8 ***	2052.5	3882.1	-1829.6 ***
Book-to-Market	0.5534	0.5472	0.0062	0.6301	0.6250	0.0051
Leverage	0.2361	0.2207	0.0154 ***	0.2425	0.2225	0.0200 ***
Sales Growth	0.1030	0.1099	-0.0069	0.0903	0.1004	-0.0101
ROA	0.0450	0.0538	-0.0088 ***	0.0291	0.0407	-0.0116 **
Change in ROA	0.0048	0.0086	-0.0038	-0.0077	-0.0033	-0.0044
1-Year Return	0.0877	0.0934	-0.0057	-0.2671	-0.2305	-0.0366 ***
Volatility	0.1263	0.1062	0.0201 ***	0.1253	0.1034	0.0219
<i>Ownership composition</i>						
Institutional Ownership	0.6090	0.7202	-0.1112 ***	0.6125	0.7183	-0.1058 ***
Executive Ownership	0.0597	0.0324	0.0273 ***	0.0553	0.0315	0.0238 ***
<i>Governance characteristics</i>						
% Independent Directors	0.6872	0.7638	-0.0766 ***	0.6869	0.7628	-0.0759 ***
% Coopted Directors	0.4915	0.4679	0.0236 **	0.5033	0.4710	0.0323 **
CEO-Chairman	0.7170	0.7269	-0.0099	0.7231	0.7142	0.0089
Poor Meeting Attendance	0.1598	0.0966	0.0632 ***	0.1448	0.1016	0.0433 ***
Indep. Dir. Ownership	0.0140	0.0134	0.0006	0.0146	0.0140	0.0006
Classified Board	0.5444	0.5449	-0.0005	0.5295	0.5406	-0.0111
Poison Pill	0.3754	0.3769	-0.0015	0.3722	0.3639	0.0083
ISS Governance Rating	-0.4626	0.1144	-0.5770 ***	-0.4694	0.0945	-0.5640 ***
Total CEO Pay	4941.3	4945.0	-3.7	5030.0	4626.1	403.9
Excess CEO Pay	-0.0175	0.0285	-0.0460 **	-0.0306	0.0069	-0.0375
<i>Information environment</i>						
Analyst Following	7.257	9.713	-2.456 ***	7.711	9.851	-2.139 ***
Press Articles	36.759	50.593	-13.834 ***	36.954	49.602	-12.648 ***
<i>Notable events</i>						
13-D Filings	0.0191	0.0209	-0.0019	0.0243	0.0267	-0.0024
Restatements	0.0706	0.0610	0.0096 **	0.0767	0.0667	0.0100
Lawsuits	0.0252	0.0217	0.0035	0.0371	0.0331	0.0040

Table 4 - continued

Panel C: Contentious management proposals versus non-contentious meetings

	Full Sample			Past Losers		
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference
<i>Financial characteristics and performance</i>						
Total Assets	4420.5	6185.9	-1765.4 ***	5274.2	6437.9	-1163.7
Market Cap	2779.7	4530.3	-1750.6 ***	2730.4	4111.2	-1380.8 ***
Book-to-Market	0.5702	0.5455	0.0247	0.7260	0.6251	0.1009 **
Leverage	0.2107	0.2220	-0.0113	0.2201	0.2241	-0.0040
Sales Growth	0.1156	0.1102	0.0054	0.0932	0.1010	-0.0078
ROA	0.0304	0.0525	-0.0222 ***	0.0108	0.0386	-0.0278 **
Change in ROA	0.0226	0.0094	0.0132	-0.0096	-0.0026	-0.0070
1-Year Return	0.1415	0.0951	0.0464 **	-0.2725	-0.2329	-0.0396 ***
Volatility	0.1304	0.1071	0.0233 ***	0.1266	0.1041	0.0225 ***
<i>Ownership composition</i>						
Institutional Ownership	0.6722	0.7262	-0.0540 ***	2730.4	4111.2	-1380.8 ***
Executive Ownership	0.0448	0.0308	0.0140 ***	0.7260	0.6251	0.1009 **
<i>Governance characteristics</i>						
% Independent Directors	0.7174	0.7679	-0.0504 ***	0.7275	0.7667	-0.0392 ***
% Coopted Directors	0.5294	0.4673	0.0621 ***	0.5037	0.4714	0.0323
CEO-Chairman	0.6861	0.7357	-0.0496 **	0.6738	0.7210	-0.0472
Poor Meeting Attendance	0.1338	0.0951	0.0387 **	0.1500	0.1001	0.0499 *
Indep. Dir. Ownership	0.0137	0.0133	0.0004	0.0117	0.0138	-0.0021
Classified Board	0.4752	0.5349	-0.0597 **	0.4575	0.5316	-0.0741 **
Poison Pill	0.4539	0.3660	0.0879 ***	0.4528	0.3531	0.0997 ***
ISS Governance Rating	0.0024	0.1295	-0.1271 ***	0.0259	0.1057	-0.0798
Total CEO Pay	4792.9	5077.3	-284.4	5385.1	4742.6	642.5
Excess CEO Pay	0.0366	0.0391	-0.0025	0.1114	0.0158	0.0956
<i>Information environment</i>						
Analyst Following	9.128	10.080	-0.952 ***	10.242	10.217	0.024
Press Articles	41.999	52.823	-10.824 ***	50.247	51.736	-1.490
<i>Notable events</i>						
13-D Filings	0.0205	0.0208	-0.0003	0.0256	0.0268	-0.0012
Restatements	0.0605	0.0599	0.0006	0.0465	0.0656	-0.0191 *
Lawsuits	0.0249	0.0220	0.0029	0.0419	0.0331	0.0088

Table 4 – continued

Panel D: Contentious shareholder proposals versus non-contentious meetings

	Full Sample			Past Losers			
	Contentious	Non-Contentious	Difference	Contentious	Non-Contentious	Difference	
<i>Financial characteristics and performance</i>							
Total Assets	25894.6	5846.3	20048.3 ***	27471.4	6078.4	21393.0 ***	
Market Cap	23359.8	4252.2	19107.6 ***	23095.0	3867.8	19227.2 ***	
Book-to-Market	0.5438	0.5470	-0.0032	0.6314	0.6245	0.0068	
Leverage	0.2701	0.2205	0.0496 ***	0.2745	0.2221	0.0524 ***	
Sales Growth	0.0464	0.1097	-0.0633 ***	0.0262	0.1001	-0.0739 ***	
ROA	0.0848	0.0535	0.0313 ***	0.0769	0.0401	0.0368 ***	
Change in ROA	-0.0032	0.0088	-0.0120 ***	-0.0111	-0.0032	-0.0079 ***	
1-Year Return	0.0409	0.0937	-0.0528 ***	-0.2164	-0.2306	0.0142 **	
Volatility	0.0825	0.1065	-0.0240 ***	0.0841	0.1038	-0.0197 ***	
<i>Ownership composition</i>							
Institutional Ownership	0.7403	0.7191	0.0212 **	0.7333	0.7175	0.0158 ***	
Executive Ownership	0.0159	0.0324	-0.0165 ***	0.0159	0.0315	-0.0156 ***	
<i>Governance characteristics</i>							
% Independent Directors	0.7893	0.7637	0.0256 ***	0.7899	0.7628	0.0271 ***	
% Coopted Directors	0.4056	0.4678	-0.0622 ***	0.3861	0.4709	-0.0848 ***	
CEO-Chairman	0.8185	0.7264	0.0921	0.7916	0.7026	0.0890 ***	
Poor Meeting Attendance	0.1230	0.0967	0.0264 ***	0.1159	0.1016	0.0143	
Indep. Dir. Ownership	0.0071	0.0135	-0.0065 ***	0.0079	0.0140	-0.0062 ***	
Classified Board	0.5573	0.5443	0.0130	0.5595	0.5399	0.0196	
Poison Pill	0.3533	0.3768	-0.0235	0.3410	0.3637	-0.0227	
ISS Governance Rating	0.1436	0.1119	0.0317	0.1038	0.0919	0.0119	
Total CEO Pay	9839.5	4946.9	4892.6 ***	9377.6	4623.5	4754.1 ***	
Excess CEO Pay	0.0703	0.0283	0.0420 **	0.0221	0.0063	0.0158	
<i>Information environment</i>							
Analyst Following	17.847	9.697	8.149 ***	17.419	9.832	7.587 ***	
Press Articles	138.90	50.34	88.56 ***	141.0	49.4	91.6 ***	
<i>Notable events</i>							
13-D Filings	0.0207	0.0209	-0.0002	0.0337	0.0267	0.0070	
Restatements	0.0552	0.0611	-0.0059	0.0613	0.0668	-0.0055	
Lawsuits	0.0437	0.0217	0.0220 ***	0.0567	0.0332	0.0235 *	

Table 5: Firm-specific News Prior to Contentious Meetings – Univariate Results

This table reports the frequency and information content of firm-specific news in the window from the proxy statement filing to the annual meeting, separately for contentious and non-contentious meetings. An annual meeting is defined as contentious if either Contentious Director Elections, or Contentious Management Proposals or Contentious Shareholder Proposals are equal to one (see Table 2 and Appendix for definitions). In Panel A, the sample consists of 25,521 annual meetings, and in Panel B, 12,746 meetings of Past Losers, i.e. firms experiencing negative market-adjusted buy-and-hold returns over the 12-month period ending 40 days prior to the annual meeting.

Under *Firm-initiated Disclosures*, both panels report mean earnings surprises for firms with an earnings announcement and analyst consensus forecast data available, mean guidance surprise for firms that issue quantitative EPS forecasts, the mean number of Form 8-K filings (and those including an 8.01 item), the mean CAR around 8-K filings computed from the event to the filing date (and those including an 8.01 item), the frequency of share buyback announcements and the mean 3-day CAR around share buyback announcements, and the mean number of firm-initiated press releases (and sentiment thereof) from RavenPack. Under *Disclosures about the Firm*, both panels report mean analysts' forecast revisions for the current fiscal year, the frequency of buy and/or strong buy recommendations, and non-firm initiated press articles (and sentiment thereof) from RavenPack. Under *Other Events*, both panels report the frequency of 13-D filings and the mean 3-day CAR around 13D filings.

Panel A: Full Sample

Variable (in %)	Mean		
	Contentious	Non-contentious	Difference
<i>Firm-initiated Disclosures</i>			
Earnings Surprise	-0.102	-0.025	-0.077
Guidance Surprise	0.104	0.039	0.066
8-K Filings (#)	1.971	2.040	-0.070**
3-Day CAR	0.349	0.202	0.146
8-K Item 8.01 Filings (#)	0.361	0.353	0.008
3-Day CAR	0.053	0.239	-0.186
Share Buyback	1.686	2.144	-0.457**
3-Day CAR	1.760	1.531	0.229
Firm-Initiated Press Releases	2.775	2.551	0.224***
Press Release Sentiment	0.011	0.012	-0.001**
<i>Disclosures about the Firm</i>			
Forecast Revision 1-year	-0.083	-0.054	-0.032
Strong Buy Recommendation	20.300	21.255	-0.956
Buy Recommendation	44.005	46.047	-2.041**
Press Articles	6.260	5.784	0.476***
Press Article Sentiment	-0.003	-0.005	0.001**
<i>Other Events</i>			
13-D Filing	0.169	0.311	-0.143**
3-Day CAR	3.729	3.751	-0.022

Table 5 – continued

Panel B: Past Losers

Variable (in %)	Mean		
	Contentious	Non-contentious	Difference
<i>Firm-initiated Disclosures</i>			
Earnings Surprise	-0.159	-0.125	-0.033
Guidance Surprise	0.009	0.047	-0.038
8-K Filings (#)	1.991	2.058	-0.067**
3-Day CAR	0.668	0.256	0.412
8-K Item 8.01 Filings (#)	0.336	0.347	-0.011
3-Day CAR	0.497	0.269	0.228
Share Buyback	1.840	2.265	-0.457**
3-Day CAR	2.351	2.160	0.192
Firm-Initiated Press Releases	2.843	2.574	0.269***
Press Release Sentiment	0.009	0.011	-0.001**
<i>Disclosures about the Firm</i>			
Forecast Revision 1-year	-0.253	-0.192	-0.061
Strong Buy Recommendation	19.225	19.011	0.215
Buy Recommendation	39.770	42.536	-2.766**
<i>Other Events</i>			
13-D Filing	0.234	0.410	-0.176
3-Day CAR	4.843	3.621	1.222
Press Articles	6.081	5.534	0.547
Press Article Sentiment	-0.004	-0.005	0.001

Table 6: Determinants of proxy-to-meeting CAR: multivariate analysis

Table 6 reports the results of a multivariate analysis of the determinants of proxy-to-meeting CAR. The dependent variable is the CAR computed from the proxy statement to the annual meeting. In Panel A, the sample includes all observations in our sample from 2003 to 2011 (column 1), split between annual meetings preceded by below-median (column 2) and above-median stock returns (column 3). *Contentious Annual Meeting* is an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one (see Table 2 and Appendix for definitions). In Panel B, observations with non-contentious annual meetings are weighted using entropy balance, based on firm characteristics measured over the year prior to the CAR window (see Table 5 for variables). In Panel C, contentious annual meetings are broken down among *Contentious Director Election*, *Contentious Management Proposal* and *Contentious Shareholder Proposal*. In Panel D, the dependent variable is the Fama-French four-factor adjusted CAR. In all panels, the sample is split between those preceded by below-median (column 2) and above-median (column 3) stock returns. Control variables include measures of the information content of firm-initiated disclosures (*Earnings Surprise*, *Guidance Surprise*, *Press Release Sentiment*, *# 8-K Filings*, *Buyback*), analyst and press outputs (*Forecast Revision*, *Buy Recommendation*, *Press Article Sentiment*), other events (*13D Filing*) and risk factors (*Past Return*, *Firm Size*, and *Book-to-Market*) as reported in Table 5. For continuous variables only available in certain subsets, we use indicator variables to indicate that they are non-missing and set the continuous variable to zero if they are not. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Forecast Revision Indicator* and *Recommendation Indicator* are similarly defined. See Appendix for detailed variable definitions. Regression standard errors are clustered by firm and year-quarter. ***, **, * indicate significance at the 0.01, 0.05, 0.10 level, respectively.

Table 6 – continued

Panel A: OLS Regression

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.06	0.013**	0.04	0.005	0.13
Earnings Surprise Indicator	-0.004	0.27	0.007	0.17	-0.016***	<.01
Earnings Surprise ^a	3.423***	<.01	3.033***	<.01	4.234***	<.01
Guidance Indicator	-0.010	0.10	-0.009*	0.10	-0.005	0.21
Guidance Surprise ^a	6.670***	<.01	8.412***	<.01	5.104***	<.01
Press Release Sentiment	-0.004	0.93	-0.015	0.81	0.068	0.23
# 8-K Filings	-0.001**	0.05	-0.001**	0.07	-0.001**	0.02
Share Buyback	0.005	0.51	0.019	0.14	-0.005	0.60
Forecast Revision Indicator	0.007**	0.04	0.001	0.81	0.011**	0.02
Forecast Revision ^a	0.029***	0.01	0.125**	0.03	0.013***	0.01
Recommendation Indicator	-0.014**	0.03	-0.021***	<.01	-0.012***	0.01
Buy Recommendation ^a	0.046***	<.01	0.066***	<.01	0.030***	<.01
Press Article Sentiment	0.177***	<.01	0.217***	<.01	0.153***	<.01
13-D Filing	0.108***	<.01	0.132***	<.01	0.071***	<.01
Past Returns	-0.017	0.21	-0.082	0.23	-0.008	0.11
Firm Size	-0.003**	0.01	-0.000	0.92	-0.004***	0.01
Book-to-Market	0.017***	<.01	0.014***	<.01	0.003	0.39
Days from Proxy to Meeting	0.000	0.26	0.001	0.13	0.000	0.44
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	20,066		9,866		10,200	
Adjusted R ²	0.070		0.146		0.068	

Table 6 – continued**Panel B: Entropy-Balanced Sample**

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.011*	0.07	0.017*	0.06	0.003	0.47
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	17,025		8,344		8,681	
Adjusted R ²	0.071		0.095		0.072	

Panel C: OLS Regression by Contentious Item

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Shareholder Proposal	0.007*	0.06	0.014***	<.01	-0.003	0.51
Contentious Management Proposal	0.009	0.15	0.014*	0.07	0.000	0.96
Contentious Director Election	0.0134**	0.03	0.012**	0.04	0.010**	0.04
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,504		9,603		9,901	
Adjusted R ²	0.071		0.149		0.069	

Panel D: OLS Regression using Fama-French Returns

	Full Sample		Past Losers		Past Winners	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Contentious Annual Meeting	0.009**	0.05	0.012**	0.04	0.003	0.36
Controls	Included		Included		Included	
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	19,452		9,540		9,912	
Adjusted R ²	0.112		0.119		0.098	

Table 7: OLS Regression of Determinants of CAR Extended to 40 Days after Meeting

Table 7 reports the OLS regression results. The dependent variable is the CAR computed over the window from the proxy filing date to 40 trading days after the annual meeting date. The sample includes all observations in our sample from 2003 to 2011 (column 1), split between annual meetings preceded by below- (column 2) and above-median stock returns (column 3). *Contentious Annual Meeting* is an indicator equal to one if either Contentious Director Election, Contentious Management Proposal or Contentious Shareholder Proposal is equal to one (see Table 5 for definitions). Control variables include measures of the information content of firm-initiated disclosures (*Earnings Surprise*, *Guidance Surprise*, *Press Release Tone*, *# 8-K Filings*, *Buyback*), analyst and press outputs (*Forecast Revision*, *Buy Recommendation*, *Press Article Sentiment*), other events (*13D Filing*), and risk factors (*Past Return*, *Firm Size*, and *Book-to-Market*). For continuous variables only available in certain subsets, we use indicator variables to indicate that they are non-missing and set the continuous variable to zero if they are not. For example, *Earnings Surprise Indicator* equals one if the firm has an earnings announcement and data available to compute *Earnings Surprise*. Otherwise, it equals zero and *Earnings Surprise* is also set to zero. *Guidance Indicator*, *Forecast Revision Indicator* and *Recommendation Indicator* are similarly defined. See Appendix for detailed variable definitions. Regression standard errors are clustered by firm and year-quarter. ***, **, * indicate significance at the 0.01, 0.05, 0.10 level, respectively.

Dependent Variable: Size-adjusted CAR						
	Full Sample		Past Losers		Past Winners	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
Contentious Annual Meeting	0.016**	0.02	0.020***	0.01	0.007	0.16
Earnings Surprise Indicator	-0.032***	<.01	-0.019*	0.10	-0.047***	<.01
Earnings Surprise ^a	4.176***	<.01	4.265***	<.01	3.898***	<.01
Guidance Indicator	-0.013**	0.02	-0.014*	0.08	-0.009	0.12
Guidance Surprise ^a	8.408***	<.01	8.649***	<.01	8.313***	<.01
Press Release Sentiment	-0.026	0.79	-0.138	0.35	0.143***	0.01
# 8-K Filings	0.000	0.58	-0.001	0.17	-0.000	0.79
Share Buyback	-0.006	0.43	0.009	0.54	-0.012	0.23
Forecast Revision Indicator	0.026***	<.01	0.029***	<.01	0.018**	0.03
Forecast Revision ^a	3.293***	<.01	3.162***	<.01	3.845***	<.01
Recommendation Indicator	-0.015	0.10	-0.021*	0.08	-0.012	0.11
Buy Recommendation ^a	0.063***	<.01	0.083***	<.01	0.045***	<.01
Press Article Sentiment	0.329***	<.01	0.308***	<.01	0.401***	<.01
13-D Filing	0.043***	<.01	0.043**	0.02	0.043	0.14
Past Returns	-0.031**	0.04	-0.054	0.52	-0.024***	0.01
Firm Size	-0.009***	<.01	-0.009**	0.02	-0.009***	<.01
Book-to-Market	0.017	0.30	0.011	0.38	-0.005	0.65
Days from Proxy to Meeting	0.000	0.13	0.000	0.39	0.001	0.14
Fixed effects	Year-Quarter		Year-Quarter		Year-Quarter	
N	20,129		9,931		10,198	
Adjusted R ²	0.100		0.146		0.105	

^a Set to zero if unavailable to maintain constant sample size.

Figure 1: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Full Sample

Figure 1 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).

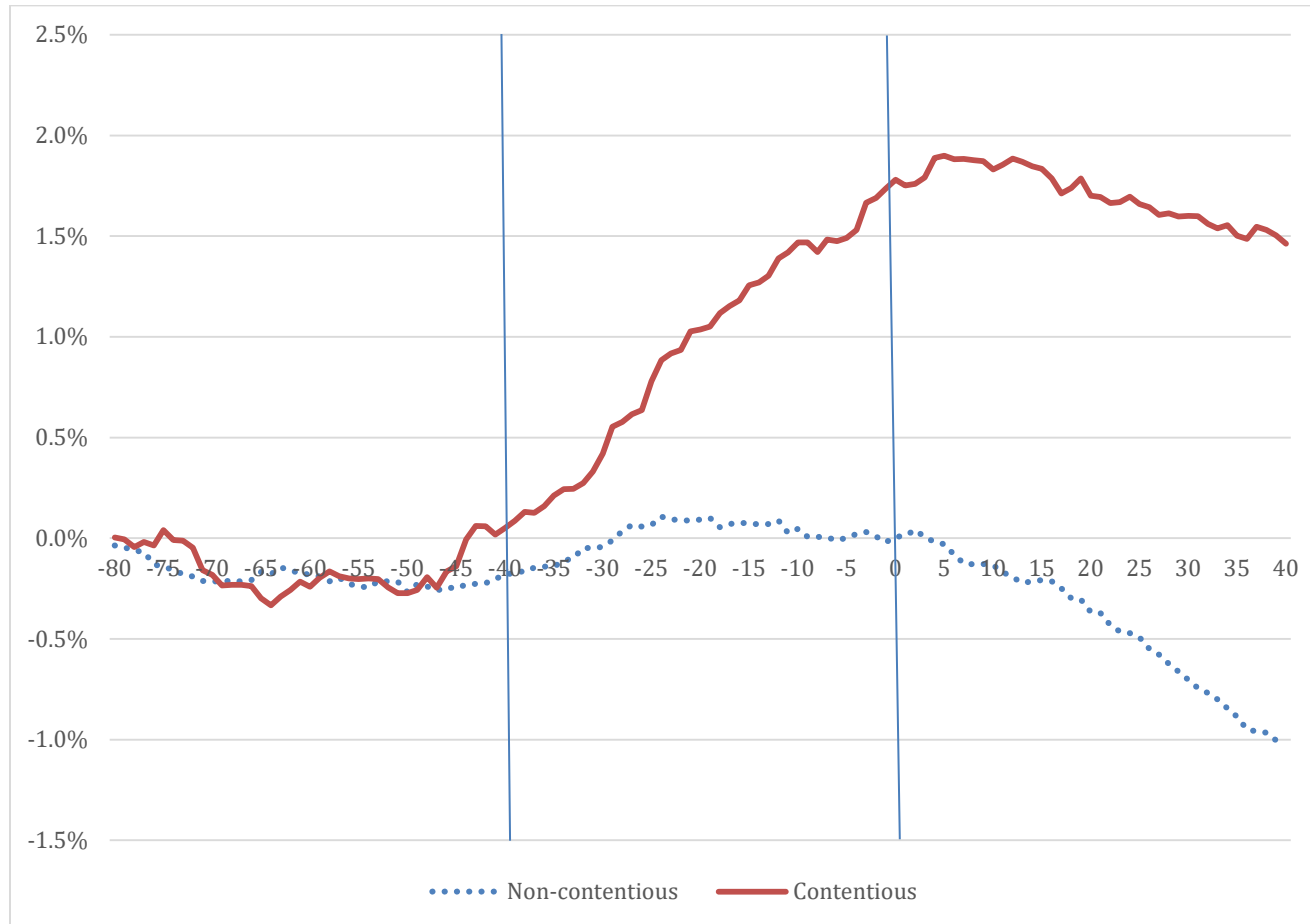


Figure 2: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Past Losers

Figure 2 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012 that are preceded by below-sample-median stock returns over the 12 months prior to day -40. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).

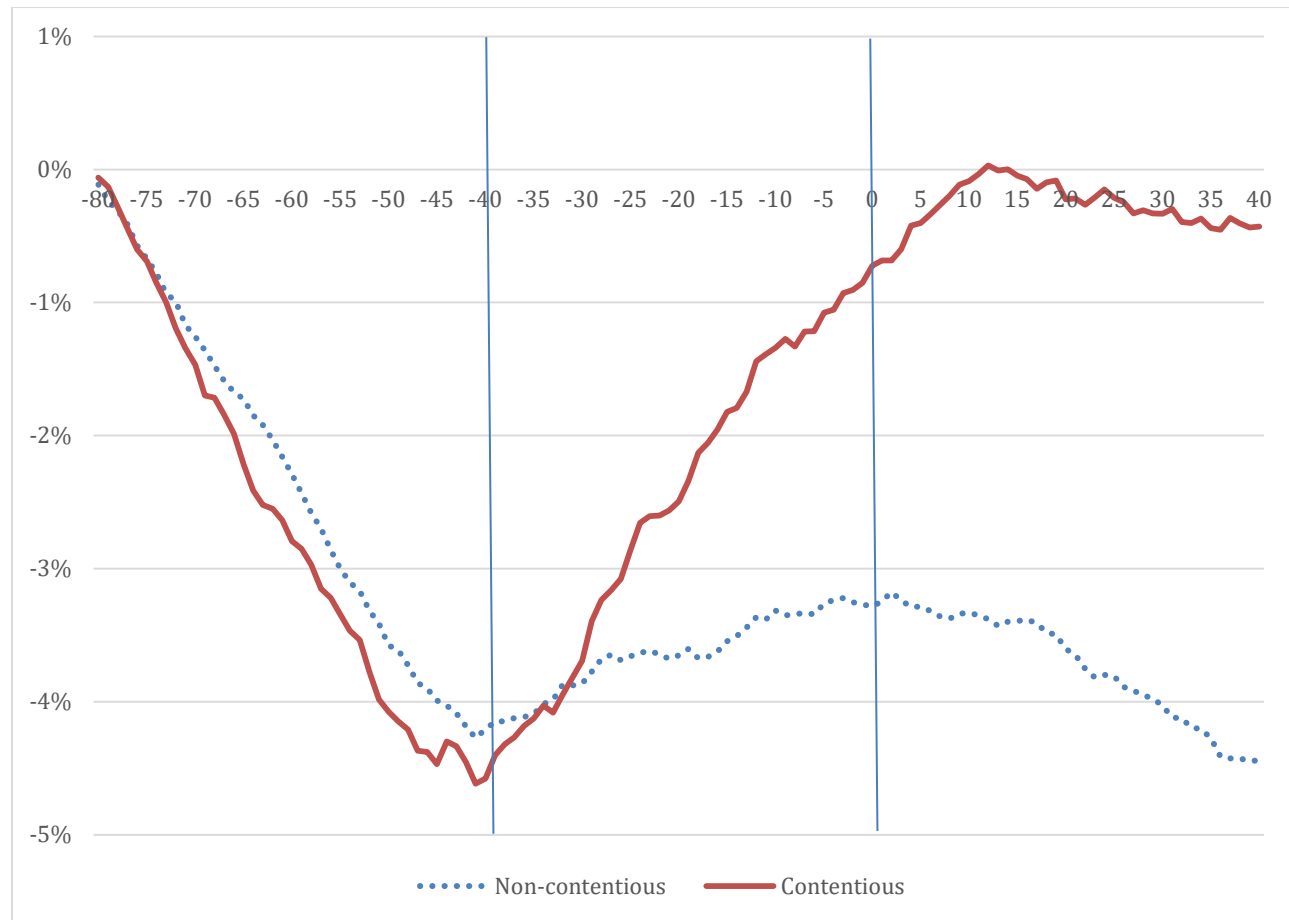


Figure 3: Size-adjusted CAR from day -80 to +40 around contentious and non-contentious annual meetings – Past Winners

Figure 3 plots equal-weighted mean cumulative daily size-adjusted CAR from day -80 to +40 around annual meetings for Russell 3,000 firms between 2003 and 2012 that are preceded by above-sample-median stock returns over the 12 months prior to day -40. The solid line indicates contentious meetings (as defined in Table 5), and the dotted line non-contentious meetings (i.e., the rest of the sample).

