Dividends Policy for Executives (“Phantom Dividends”)

General Electric 2009

Shareowner Proposal No. 4—Dividend Policy

The IUE-CWA (on behalf of the IUE-CWA Pension Fund), 2701 Dryden Road, Dayton, OH 45439, has notified us that its representative intends to present the following proposal at this year’s meeting:

RESOLVED, that the shareowners request that the Board of Directors of General Electric (“Company”) adopt a policy that the Company will no longer pay dividends or equivalent payments to senior executives of the Company for shares they do not own.

Supporting Statement

The 2006-2008 proxy statements disclose that senior executives of the Company have received millions of dollars of dividends or dividend-equivalent payments on grants of equity compensation that they do not own. These are payments on shares that the executives may never earn if the Company fails to meet certain performance targets.

The Wall Street Journal reported that CEO Jeffrey Immelt “received more than $1 million … in dividends on unearned restricted and performance shares” in 2005. (May 4, 2006). In addition, our analysis of the 2006-2008 Proxy Statements indicates that the five senior officers have collectively been paid in excess of $12.5 million in dividends or dividend equivalent payments for the eleven quarters after January 1, 2006.

We believe it is a blatant contradiction of the principle of pay for performance to give senior executives millions of dollars in “dividends” for stock that they do not own, and may fail to earn in the future. If the purpose of a grant of performance shares is to make compensation contingent on the achievement of specified performance objectives, as the Compensation Committee stated in the 2006 proxy statement, we submit that no “dividends” should be paid on those shares until an executive has actually earned full ownership rights.

In response to this proposal in the 2007 Proxy Statement, the proxy statement declared that Mr. Immelt, starting in September 2006, would only accumulate dividend equivalents if he earns the shares, and that payments would be made (without interest) upon full ownership. However, for other senior executives, it stated that the goal of providing “dividend equivalent payments is to mirror the income generation associated with stock ownership” and asserted that the current practice was “competitive.”

In our opinion, the limited change in Company policy for Mr. Immelt is insufficient. For the CEO, it continues to undermine the principle of pay for performance because payment is made on shares that are not owned. For other top officers, there has been no
change in the practice of awarding dividends or dividend equivalents on shares not owned.

According to the Wall Street Journal report noted above, several leading companies, such as Intel and Microsoft, “never pay dividends” before full ownership rights have been earned. If the Management Development and Compensation Committee believes that current executives are underpaid in the absence of “phantom dividends” or dividend equivalent payments, we believe it should increase other components in compensation packages.

In our view, contingent pay should be truly contingent. We agree with Paul Hodgson at the Corporate Library, who has stated that dividends on performance shares are “stealth compensation.”

We urge shareholders to vote for this proposal.

Your Board of Directors recommends a vote AGAINST this proposal.

The goal of our compensation program is to create long-term and sustainable value for our shareowners. An important component of our compensation program is equity incentive compensation. Since 2003, we have compensated our CEO with performance share units (PSUs) in lieu of any other equity incentive compensation because the MDCC and the CEO believe that the CEO’s equity incentive compensation should be fully at risk and based on key performance measures that are aligned with the interests of investors.

Beginning with PSUs granted in September 2006, Mr. Immelt no longer receives dividend equivalent payments on his PSUs, but rather, accumulated dividend equivalents equal to the quarterly dividends on one share of GE stock. Mr. Immelt is entitled to receive those dividend equivalents (without interest) only on shares he actually earns at the end of the performance period based upon satisfaction of the performance targets. If Mr. Immelt leaves GE prior to the end of the performance period, the PSUs and dividend accruals will be forfeited.

We also award restricted stock units (RSUs) to executives other than the CEO. RSUs offer executives the opportunity to receive shares of GE stock on the date the restriction lapses. In this regard, RSUs serve to both reward and retain executives, as the final amount of any compensation received is linked to the price of GE stock. During the restricted period, each RSU entitles the executive to receive quarterly payments from GE equal to the quarterly dividends on one share of GE stock. The objective of providing such dividend equivalent payments is to help focus our executives on, and to reward them for, managing the business to produce cash that is capable of being distributed to shareowners in the form of a dividend. Dividend equivalents also mirror the income generation associated with stock ownership. We believe our practices regarding the provision of dividend equivalent payments are competitive and provide the appropriate
risk-reward balance for our senior executives. Therefore, the Board recommends a vote against this proposal.