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## **IRRC Governance Research Service 2004 Background Report B:**

# **SHAREHOLDER PROPOSALS ON EXECUTIVE AND EMPLOYEE COMPENSATION**

**Rosanna Landis Weaver  
Nandini Harihareswara, researcher  
March 2004**

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### **Executive Summary**

As of March 2004, IRRC was tracking 250 shareholder proposals on executive pay, and six proposals related to employee compensation for the 2004 proxy season, compared with the 268 executive compensation proposals and 10 employee compensation proposals in early 2003. As has been true for a number of years, most of the proposals have been submitted by labor union pension funds. It appears as well that some individual proponents are deliberately targeting executive compensation, an area of concern that had not been significantly addressed in the raft of new regulations that have been implemented over the last year.

Traditionally, there have been a large number of proposals on executive pay, but many receive low support. Shareholders seem to be warming up to these proposals, though, as can be seen in the rising average level of support. In 2003, the average level of support for 163 proposals that came to a vote was 19.7 percent of the votes cast for and against, a notable increase from the 18.5 average percent support in 2002, 15.0 percent in 2001 and 9.6 percent in 2000. In addition, companies are finding less opportunity to omit such proposals. The SEC is less likely to rule allow companies to omit executive or employee pay proposals on ordinary business grounds because of the increased public attention on such matters. In addition, it seems that many shareholder activists have become savvier about the phrasing and scope of their proposals so that are more likely to be included in proxy materials.

## Recent trends

The regulatory reforms of the past few years have not specifically addressed many executive compensation issues, but the issues have still been swept up in the changing tide. There appears to be growing consensus among shareholders and corporate governance experts that the link between executive pay and performance remains weak. Two reports issued this year stress principles similar to those espoused by shareholder activists.

The Business Roundtable (BRT), an association of CEOs of top U.S. companies, on November 17 issued principles on executive compensation that provide specific suggestions on how to link more closely CEO pay and performance and how to strengthen the role of independent compensation committees. *Executive Compensation: Principles and Commentary* marks the first time the BRT has published a report on the issue since 1992, and the foreword notes that since that time, “there has been a growing concern among investors and the public, which we share, that performance has not always been commensurate with pay, and a perception that some executives have reaped substantial financial rewards in the face of declining stock prices and staggering losses to employees and stockholders.” The BRT’s prescriptions include:

- Executive compensation should be closely aligned with the long-term interests of shareholders and with corporate goals and strategies. It should include significant performance-based criteria related to long-term shareholder value and should reflect upside potential and downside risk.
- Compensation of the CEO and other top executives should be determined by a compensation committee composed entirely of independent directors, either as a committee or together with the other independent directors based on the committee’s recommendations.
- The compensation committee should understand all aspects of the compensation package and should review the maximum payout under that package, including all benefits.
- Compensation committees should require executives to build and maintain significant continuing equity investment in the corporation.
- The compensation committee should have the authority to select and hire independent, experienced compensation consultants and counsel to provide advice on new executive compensation packages or significant changes in existing packages.
- Corporations should provide complete, accurate, understandable, and timely disclosure to shareholders concerning all significant elements of executive compensation and executive compensation practices.

The National Association of Corporate Directors also took the issue on this year, with the latest installment of its Blue Ribbon series of reports, “*Executive Compensation and the Role of the Compensation Committee*.” The report was compiled by independent outside directors, CEOs, and leading compensation consultants. “While there is no prescriptive answer to the right formula for a CEO pay package, we believe there is an identifiable set of practices that boards can apply to their deliberations,” says Barbara Hackman Franklin, co-chair of the NACD Commission, corporate director and former U.S. Secretary of Commerce.

Key principles and practices in the report include:

- Independence: not only should compensation committee members be independent, they should consider hiring an independent compensation consultant, as needed, to assist in the development of both a compensation philosophy and specific pay packages.
- Fairness: there should not be wide gaps between the CEO’s pay and the pay of other senior managers—or between executives and other employees—unless these are justified and explained.
- Long-Term Shareholder Value: Executives should be rewarded for meeting short-term targets, but companies also should award additional variable compensation based on achieving key metrics over an extended period of time, using company performance measures, rather than stock price, as a criteria.
- Linking Pay to Performance: Pay plans should give managers a long-term stake in the company through ownership requirements and stringent holding periods for that ownership. Performance objectives should be established with full engagement and approval of the board, not delegated to the compensation committee. Pay should be linked to performance as reported, and performance metrics should not be changed after the fact to compensate for failure to meet stated objectives.

- Disclosure: Boards should ensure that every element of compensation is fully and clearly disclosed, even if such disclosure is not required.

Copies of the report are available for \$150 per copy by contacting NACD at 202-775-0509, or online at [www.nacdonline.org](http://www.nacdonline.org). NACD members can purchase the report for \$50.

Spurred by concerns about overly generous and short timer focused options packages, the practice of compensation is changing. Restricted stock has made a notable reappearance and the days of large option grants may be over. The public outcry against options is not the only reason for this change. Years of underwater options have restored the appeal of restricted stock to executives, and uncertainties about the accounting treatment of options have made compensation committees reluctant to rely too heavily upon them. Because some shareholders contend that time-based restricted stock is more gift than incentive, a major development for this year is the effort to add performance criteria to restricted stock.

A number of companies have announced specific reforms to their compensation practices. Those taken as a result of specific shareholder proposals are discussed throughout the report, but we highlight a few here. One of the most significant announcements came from Microsoft, which last summer announced that it would begin expensing all equity-based compensation, including previously granted stock options, and would replace stock options with stock grants as its favorite payment method. AFL-CIO Secretary Treasurer Richard Trumka sent a letter to CEOs of corporate members of the International Employee Stock Options Coalition calling on them to follow Microsoft's example regarding stock options. In February 2004, IBM announced that beginning in 2005 it will only grant stock options to executives with a strike price that is 10 percent higher than the market price on the day the options are issued. In addition, IBM executives will be required to buy IBM shares with their own money before they are permitted to acquire options.

Sometimes shareholders have played significant roles in reform. Calpers assisted JDS in formulating its new 2003 Equity Incentive Plan, approved by shareholders in November 2003. The JDS plan eliminates the previous evergreen provisions, lists 19 performance criteria that can be used as measures when granting performance-based awards, and limits awards to the top five officers to 5 percent of the total number of shares subject to awards each fiscal year. It also prohibits repricing without shareholder approval, including six months and one day repricing, commonly referred to as the "6+1" plan.

## **I. Shareholder Proposals on Executive Pay in 2003**

Executive compensation has only been a routine topic for shareholder proposals since 1992. Before then, compensation issues were considered "ordinary business" matters by the SEC staff, so the commission allowed companies to omit such resolutions from their proxy statements. Only a few that were not challenged at the SEC came to votes (Evelyn Y. Davis' proposal to disclose the names of all executives earning over a certain threshold has been around longer; it was allowed since it only called for a report and did not attempt to limit compensation in any way). Amid growing public and congressional outrage over "excessive" CEO pay and a push by institutional investors to link pay to performance, the SEC reversed its position on Feb. 13, 1992, saying compensation had become a public policy matter and was no longer "ordinary business." Since then, shareholder resolutions on executive pay have become one of the most numerous type of shareholder proposal filed in corporate governance.

Shareholder proposals on the subject have proliferated particularly in the last two years. Public pension funds and labor unions call for performance-based compensation and option expensing, while church groups ask for reports on how compensation is linked to a broad range of social considerations. Individuals press for a wide variety of actions intended to limit executive pay, including tying pay to the company's financial performance or discontinuing executive bonuses.

Some proponents may file resolutions at a number of companies simultaneously, while others focus on a single company and submit the same proposal year after year. Some sponsors may file a resolution intended as part of an overall strategy to catch management's attention and advance the platforms or concerns of particular constituents. For example, church groups coordinated by the Interfaith Center on Corporate Responsibility continued their

campaign to link executive pay to social and environmental criteria in 2000. A new proponent in 1999, United for a Fair Economy/Responsible Wealth, began by introducing a number of proposals asking companies to cap executive pay as a multiple of the average U.S. worker's salary.

## Proposal Review

For this report, shareholder-sponsored proposals on executive pay have been grouped into several categories:

- expense compensation
- link pay to performance
- link pay to social criteria
- no repricing of underwater option awards
- disclose executive compensation
- disclose SERP obligations
- vote on compensation plans
- other proposals on executive compensation
- proposals on employee compensation

Other shareholder resolutions related to executive compensation may request the board to establish an independent compensation committee; for information on these proposals, see IRRC's Background Report L: *Election of Directors and Board Independence Issues*. For information on proposals seeking shareholder approval on executive severance packages, see IRRC's Background Report G: *Golden Parachutes and Other Severance Arrangements*.

For a complete list of shareholder proposals filed in 2003, organized by company, see appendix A.

## Expense option value at the time of grant

The most frequently filed type of executive compensation shareholder proposals for the 2003 proxy season were those asking companies to expense their options, with more than one-third of executive compensation proposals tracked requesting option expensing (see Table 1). Of the 268 proposals on executive compensation, 115 asked target companies' boards to expense all future option awards in financial statements, and the average vote on the 69 that came to a vote was 47.4 percent in favor. Similar proposals were first seen in 2002, when 11 were proposed (the two that came to a vote received an average 29.3 percent support). Most of these proposals were submitted by union-affiliated funds; the majority were submitted by funds affiliated with the United Brotherhood of Carpenters and Joiners of America. In 2003, sixteen companies adopted the proposals and had the proposal withdrawn. At least one, Georgia Pacific, agreed to expense options after the proposal passed at the company last year.

The Financial Accounting Standards Board (FASB) permits companies to account for stock option grants in one of two ways. Under APB 25, the "intrinsic value" method (used by most publicly traded companies) measures compensation cost as the excess of the market price of the stock at the grant date over the exercise price. Because most stock options are granted at 100 percent of fair market value on the grant date, companies using the intrinsic value method of stock option accounting essentially have a "zero" charge against their earnings. The "fair value" method under FAS 123 determines compensation cost based on the fair value of the award on its grant date, generally using Black-Scholes methodology, and recognizes it as an expense in the income statement. Under FAS 123, all companies are required to disclose the fair value of all options granted. However, if companies use the intrinsic value accounting method, they need do so only on a pro forma basis. (Note: new disclosure rules have moved this report from a footnote to a more prominent table in a company's 10K report.)

Labor funds, primarily those associated with the building trades, began filing proposals on this topic in mid-2002, after the bulk of annual meetings for that year had concluded. In July 2002, the SEC's Division of Corporation Finance ruled that National Semiconductor could omit an option expensing shareholder proposal submitted by the Carpenters' pension fund based on the fact that the way the company accounts for its options depends on its choice

of accounting methods, and therefore, relates to ordinary business matters. Based on this ruling, companies initially were able to omit these types of proposals from their proxy statements. The Carpenters then appealed the decision to the full SEC commission. The AFL-CIO also joined the campaign urging the SEC to reconsider its position on stock option expensing. In December 2002, the SEC reversed its original decision, stating, "in the future, we will not treat shareholder proposals requesting the expensing of stock options as relating to ordinary business matters."

The issue of option expensing gained so much momentum after the SEC ruling that some companies adopted the practice as the proponent was filing the proposal. Such was the case at Avalon Bay Communities, CarrAmerica, Cummins, Mercantile Bankshares and Verizon Communications. At Boston Scientific, EMC and Hilton Hotels the proposal arrived late, and could have been omitted. The companies agreed, however, to present the issue at the meeting and had the boards put it on their agenda.

As this report is prepared the issue of option expensing is again on the front burner. The International Accounting Standards Board's recently announced that companies reporting under International Accounting Standards must begin treating stock options as an expense by Jan. 1, 2005. FASB has announced its intention to release rules enacting similar requirements for U.S. companies in spring 2004. Several CEOs from high technology companies have enlisted in a public lobbying campaign against the FASB rule. The plan is also coming under heavy fire on Capitol Hill. House Minority Leader Nancy Pelosi (D-Calif.) has signed on as a cosponsor of a bill (H.R. 3574) that would require the expensing of only the stock options granted to a company's top five executives. All other options granted to other employees would not be counted as a cost against earnings under the legislation. H.R. 3574 originally was introduced in November by Rep. Richard Baker (R-La.). Pelosi joins 45 other cosponsors. A companion bill in the Senate (S. 1890), which has similar provisions and was introduced by Sen. Michael Enzi (R-Wyo.), has 16 cosponsors.

**Table 1: Shareholder proposals seeking to expense options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Airborne	Graves, D.	45.8%
Albertson's	IBEW	51.2%
Alaska Air Group	T. Dayton	51.0% - passed
Allegheny Energy	Sheet Metal Workers	41.3%
Allied Waste Industries	Sheet Metal Workers	41.8%
Allmerica Financial	UBCJA	34.5%
American Electric Power	IBEW	omitted – technicality
American Financial Group	UBCJA	20.7%
Analog Devices	UBCJA	37.8%
Apple Computer	UBCJA	56.4% - passed
Archstone-Smith Trust	UBCJA	withdrawn
AvalonBay Communities	UBCJA	omitted – adopted
Avon Products	IBEW	56.4% -passed
Bear Stearns	UBCJA	withdrawn – adopted
BellSouth	UBCJA	withdrawn – adopted
Black & Decker	UBCJA	52.4% - passed
Boston Scientific	UBCJA	withdrawn
Capital One Financial	UBCJA	68.9% - passed
CarrAmerica Realty	UBCJA	withdrawn – adopted
Caterpillar	IBEW	withdrawn
Cheesecake Factory	Culinary Workers	40.7%
Cincinnati Financial	Laborers	29.1%
Cintas	AFSCME	33.7%
Citrix Systems	Laborers	54.8% - passed
Coca-Cola Enterprises	UBCJA	27.6%
Constellation Energy Group	IBEW	W
Convergys	Laborers	49.1%
Cox Communications	Sheet Metal Workers	withdrawn
Delta Air Lines	Airline Pilots	61.4% - passed

**Table 1: Shareholder proposals seeking to expense options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Cummins	Sheet Metal Workers	withdrawn – company expenses
Donnelley (R.R.) & Sons	UBCJA	41.1
Dow Jones	CWA Member	not in proxy
DPL	UBCJA	withdrawn – adopted
Duke Energy	IBEW	omitted – technicality
Eastman Kodak	Laborers	56.3% - passed
Ecolab	UBCJA	omitted – technicality
Electronic Data Systems	UBCJA	not in proxy
EMC	UBCJA	withdrawn
Entergy	UBCJA	withdrawn- adopted
Equifax	UBCJA	60.7% - passed
Equity Office Properties Trust	UBCJA	withdrawn – adopted
Exxon Mobil	UBCJA	withdrawn
FirstEnergy	Sheet Metal Workers	46.6%
Fluor	UBCJA	79.7% - passed
FPL Group	UBCJA	withdrawn – adopted
Gap	Sheet Metal Workers	36.4%
Gateway	Operating Engineers	22.9%
Genuine Parts	UBCJA	withdrawn – adopted
Genzyme (General)	UBCJA	63.2% - passed
Georgia-Pacific	Teamsters	65% - passed and adopted
Gillette	UBCJA	41.9%
Halliburton	UBCJA	omitted – technicality
Hershey Foods	UBCJA	9.3%
Hilton Hotels	UBCJA	withdrawn
Hewlett-Packard	Laborers	45.2%
Intel	UBCJA	49.5%
International Business Machines	Sprinkler Pension Plan	47.3%
Kimberly-Clark	UBCJA	53.0%
Kimco Realty	UBCJA	withdrawn – company adopted
Kinder Morgan	Laborers	31.1%
Knight-Ridder	CWA Member	50.5%
Kohl's	UBCJA	50.6% - passed
Lehman Brothers Holdings	UBCJA	withdrawn – adopted
Lilly (Eli)	UBCJA	41.3%
Lockheed Martin	UBCJA	
Marriott International	IBEW	33.2%
Maximus	LongView	40.3%
MBNA	AFSCME	52.1% - passed
Mercantile Bankshares	UBCJA	withdrawn – company expenses
Mercury Interactive	UBCJA	52.3% - passed
Mirant	IBEW	61.7% - passed
NCR	Laborers	53.2% - passed
Otter Tail	Olson, D.	34.1%
Nordstrom	Sheet Metal Workers	42.0%
PeopleSoft	AFSCME	47.8%
PG&E	UBCJA	56.2%
Pinnacle West Capital	UBCJA	withdrawn – adopted
PPG Industries	Teamsters	52.4% - passed
Price (T. Rowe) Group	UBCJA	withdrawn
Progress Energy	UBCJA	45.0%
Provident Financial Group	UBCJA	withdrawn
Qwest Communications International	Operating Engineers	awaiting tally
Qwest Communications International	LongView	awaiting tally

**Table 1: Shareholder proposals seeking to expense options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Pulte Homes	UBCJA	withdrawn – adopted
Radian Group	UBCJA	omitted – technicality
Reebok International	UBCJA	not in proxy
Safeway	Plumbers, Pipefitters	62.7% - passed
Schwab (Charles)	Sheet Metal Workers	28.9%
Scripps (E.W.)	Laborers	omitted – technicality
Siebel Systems	AFSCME	32.7%
Simon Property Group	UBCJA	withdrawn – adopted
Sprint	IBEW	withdrawn – adopted
Starbucks	UBCJA	42.3%
Starwood Hotels & Resorts	IBEW	60.5% - passed
SuperValu	UBCJA	64.3% - passed
Teco Energy	UBCJA	47.4%
Thermo Electron	Sheet Metal Workers	59.7% - passed
TXU	UBCJA	withdrawn – adopted
U.S. Bancorp	UBCJA	withdrawn – adopted
UnitedHealth Group	AFSCME	48.1%
Vectren	UBCJA	44.3%
Veritas Software	Plumbers, Pipefitters	64.3% - passed
Verizon Communications	CWA	withdrawn – company expenses
Washington Mutual	UBCJA	withdrawn – adopted
Wells Fargo	Armstrong, G.	58.5% - passed
Weyerhaeuser	Teamsters	51.4% - passed
Yahoo	UBCJA	34.4%
Zimmer Holdings	IBEW	47.0%

## Award performance-based stock options

Second in prevalence to proposals asking companies to expense stock options were proposals seeking to have companies award performance-based stock options to executives. While the two issues may appear distinct, they are in fact closely linked. Options that have exercise prices that can change (i.e. indexed options) or those that have vesting that depends solely on performance (i.e. a small number of performance-vesting options) are subject to variable accounting treatment, which has restrained their use since other options qualify for more favorable “fixed” accounting. Many companies have contended that granting performance-based options would require them to expense options, and such an action would place them at a competitive disadvantage. However, as the call to expense options has gained momentum, some labor activists see this proposal as a next step toward ensuring more reasonable executive compensation. In particular, they filed a number of proposals seeking performance-based options at companies that have already declared their intent to expense options.

The proponents argue that stock option grants without performance-based targets can compensate executives excessively for stock increases that are due solely to a general stock market rise, rather than to superior company performance. Options with an exercise price tied to a market index ensure that executives are rewarded for outperforming the competition. In addition, indexed options alleviate pressure to reprice options during a downturn in the industry as a whole.

Almost 30 percent of all executive compensation proposals filed for 2003 fit into this category (see Table 2). In 2003, 59 such proposals came to a vote – out of 92 tracked on the issue – and the average vote in support was 16.1 percent. The median was 14.3 percent. Of the 23 proposals submitted in 2002, 11 came to a vote, receiving an average of 24.2 percent level of support and a median level of support of 16.9 percent. In 2001, four similar proposals came to a vote, receiving an average 19.9 percent support. Most of the proposals listed below seek to have the companies award premium-priced or indexed options to senior management, although other proposals, such as Dennis Breuel’s resolution at American Express, simply seek to prohibit the grant of discounted options to executives.

TIAA-CREF filed a number of proposals that sought performance-based compensation among their goals, but because these proposals also addressed other issues they are discussed under “Other Executive Compensation Proposals” on page 16.

IRRC tracked 24 proposal on the issue that were withdrawn. In some cases the company may have agreed to adopt specific reforms. In other cases, it appears that proponents withdrew proposals when the company agreed to adopt another union fund proposal, perhaps because they felt that the company was beginning to address concerns about its compensation practices. Performance-based compensation proposals were withdrawn at Bear Stearns, Entergy and Washington Mutual after these companies agreed to begin expensing options.

**Table 2: Shareholder proposals seeking performance-based stock options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Airborne	Boyd, R.	25.1%
Allegheny Energy	IBEW	22.5%
Allegheny Energy	Moser, J.	21.3%
Allied Waste Industries	UBCJA	11.0%
Amazon.com	IBEW	19.3%
American Electric Power	Plumbers, Pipefitters	16.3%
American Express	Breuel, D.	3.4%
AT&T Wireless Services	Laborers	9.9%
Avon Products	Laborers	8.5%
Bank Of America	Laborers	withdrawn
Bear Stearns	Laborers	withdrawn
BellSouth	Sheet Metal Workers	24.0%
Boeing	Watt, D.	14.4%
Boise Cascade	Plumbers, Pipefitters	12.0%
Boston Scientific	Sheet Metal Workers	9.0%
Caterpillar	Sheet Metal Workers	withdrawn
Cendant	UBCJA	withdrawn
CenterPoint Energy	Sheet Metal Workers	22.5%
Cincinnati Financial	UBCJA	withdrawn
Citigroup	UBCJA	withdrawn
Coca-Cola	Teamsters	10.1%
Coca-Cola Enterprises	Teamsters	6.5%
Constellation Energy Group	UBCJA	13.5%
Cox Communications	UBCJA	2.4%
Delta Air Lines	UBCJA	26.7%
Dillard's	IBEW	21.5%
Disney (Walt)	CWA	14.5%
Dynegy	IBEW	12.1%
Eastman Kodak	Plumbers, Pipefitters	10.8%
El Paso	Laborers	39.2%
EMC	Sheet Metal Workers	16.4%
Entergy	IBEW	withdrawn
Exxon Mobil	Laborers	withdrawn
FirstEnergy	Plumbers, Pipefitters	16.2%
FleetBoston Financial	UBCJA	withdrawn
Fluor	IBEW	withdrawn
Gap	Plumbers, Pipefitters	omitted – technicality
Gateway	UBCJA	10.1%
General Electric	LongView	15.2%
General Electric	Sheet Metal Workers	withdrawn
General Motors	J. Lauve	10.6%
Gillette	Sheet Metal Workers	withdrawn
Goldman Sachs Group	UBCJA	withdrawn
Great Lakes Chemical	Laborers	26.5%

**Table 2: Shareholder proposals seeking performance-based stock options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Halliburton	IBEW	omitted – technicality
Hewlett-Packard	Plumbers, Pipefitters	13.4%
Home Depot	UBCJA	not in proxy
Intel	IBEW	withdrawn
International Business Machines	Laborers	withdrawn
J.P. Morgan Chase	UBCJA	withdrawn
Kimberly-Clark	Sheet Metal Workers	15.4%
Kinder Morgan	IBEW	6.5%
Kohl's	IBEW	11.4%
Lennox International	Sheet Metal Workers	20.0%
Lilly (Eli)	Sheet Metal Workers	13.2%
Liz Claiborne	Plumbers, Pipefitters	13.0%
Manor Care	Teamsters	12.0%
Marriott International	UBCJA	withdrawn
Mercury Computer Systems	Teamsters	not in proxy
Mercury Interactive	Laborers	10.1%
Morgan Stanley	UBCJA	withdrawn
Motorola	Laborers	omitted – technicality
NCR	IBEW	15.1%
Newpark Resources	NYCPolice	not in proxy
Office Depot	Laborers	10.1%
PepsiAmericas	Teamsters	7.5%
PPL	UBCJA	16.2%
Progress Energy	IBEW	20.3%
Providian Financial	Operating Engineers	withdrawn
Qwest Communications	Operating Engineers	awaiting tally
Qwest Communications	LongView	awaiting tally
Raytheon	IBEW	14.3%
Reebok International	Sheet Metal Workers	19.7%
Safeco	Laborers	16.2%
Safeway	Laborers	17.9%
Starwood Hotels & Resorts	UBCJA	11.8%
SunTrust Banks	UBCJA	14.1%
Teco Energy	Plumbers, Pipefitters	27.6%
Texas Instruments	Laborers	28.6%
Thermo Electron	UBCJA	withdrawn
Tyco International	UBCJA	11.0%
Vectren	Sheet Metal Workers	19.4%
Verizon Communications	Laborers	20.6%
Wachovia	UBCJA	withdrawn
Wal-Mart Stores	UBCJA	6.5%
Washington Mutual	UBCJA	withdrawn
Yahoo	IBEW	8.6%

## Abolish Stock Options

The AFL-CIO submitted a proposal to seven companies in 2003 that sought the adoption of a policy prohibiting future stock option grants to senior executives, to be implemented so as not to conflict with standing employment agreements or equity compensation plans. The proposal was not particularly successful. It was omitted at three companies, two of them on the grounds that since shareholders would be voting on an option plan that year the proposal would conflict with a management proposal. At the four companies where the AFL-CIO proposal went to a vote it received an average of only 6.5 percent (see Table 3).

The AFL-CIO claimed in its supporting statement that stock options present incentives to executives that diverge from the interests of stockholders since options encourage excessive risk-taking (due to the risk-free nature of an option award) as well as discourage the issuance of dividends (that option holders are not entitled to receive). By eliminating stock options, the AFL-CIO hoped to remove from executives any temptation to manipulate a company's stock price in order to maximize gains from options held or to be awarded.

In addition to the AFL-CIO's proposals, individual investor Chris Scumas submitted a proposal to AOL Time Warner asking the board to adopt a policy prohibiting future stock option grants to the company's senior executives. That proposal was omitted because it included more than 500 words.

**Table 3: Shareholder proposals seeking to abolish stock options in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
American Express	AFL-CIO	4.6%
Amgen	AFL-CIO	not properly presented at meeting
AOL Time Warner	AFL-CIO	omitted – counter to management proposal
AOL Time Warner	Scumas, C.	omitted – supporting statement over 500 words
Baker Hughes	AFL-CIO	3.1%
Baxter International	AFL-CIO	omitted – counter to management proposal
Omnicom Group	McCrie, R.	6.1%
Verizon Communications	AFL-CIO	12.7%
Wells Fargo	AFL-CIO	5.7%

## Cap executive pay

Three proposals to cap executive pay came to a vote in 2003, all at communications companies. They were not the only proposals submitted, however; at least six proposals on the topic were allowed to be omitted for various reasons by the SEC. The three proposals voted on received average support of 13.3 percent. In 2000 – the last time shareholders voted on these proposals – the three that came to a vote received average support of 10.8 percent.

The proposals at AT&T, Sprint and Verizon sought to cap CEO pay for any given year at an amount equal to 50 times the average compensation paid to employees who are not exempt from coverage under the Fair Labor Standards Act in the prior year. The proponent says that this maximum amount should include salary, bonus, the grant-date present value of stock options, the grant-date present value of restricted stock, payments under long-term incentive plans, and “other annual” and “all other compensation” provided that the cap be implemented in a way that does not violate any existing contractual provision. The proponents cite a *Business Week* article (May 6, 2002), that says CEOs of large corporations in 2001 made 411 times as much as the average factory worker. In the past decade, according to the same article, while the wages of rank-and-file workers increased by 36 percent, the compensation of CEOs climbed 340 percent. A report released by United for a Fair Economy (UFE), describes the CEO-worker pay gap of 411-to-1 as nearly 10 times as high as the 1982 ratio of 42-to-1. The report states that if worker pay had grown as fast as CEO pay since 1990, production workers would have averaged \$101,156 in 2001 instead of \$25,467. Additionally, if the minimum wage had grown as fast as CEO pay since 1990, it would have been \$21.41 an hour in 2001 instead of \$5.15. UFE data shows an inverse correlation between very high CEO pay and long-term stock performance.

Joseph E. Kuklo, who submitted four similar proposals in 2000, targeted the same four companies (AT&T, Disney, Eastman Kodak and PepsiCo) in 2003. Kuklo’s proposals requested that the top total compensation paid by a target company be \$1 million. All were omitted.

**Table 4: Shareholder proposals seeking to cap executive pay in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
AT&T	Kuklo, J.	omitted – ownership issues
AT&T	CWA	7.6 %
Disney (Walt)	Kuklo, J.	omitted – ownership issues
Eastman Kodak	Kuklo, J.	omitted – false or misleading
General Electric	Carrington, W.	omitted – false or misleading
General Electric	Newby, E.	omitted – false or misleading
PepsiCo	Kuklo, J.	omitted – false or misleading
Sprint	CWA	14.6 %
Verizon Communications	Scinaldi, L.	17.8 %

## Link pay to social criteria; examine compensation ratio

Some shareholders look beyond a company’s financial performance to how a corporation behaves. They believe that questionable corporate behavior, no matter how profitable in the short-term, remains harmful to long-term interests. Proposals addressing a company’s social and ethical behavior are frequently omitted as pertaining to ordinary business. However, proposals looking to link such behavior to executive compensation often come to a vote, giving activists a platform to discuss social issues in a company’s proxy materials. In 2003, shareholders submitted 18 proposals seeking to link executive pay to social issues or address pay disparities, more than the 12 like-minded proposals submitted in 2002. Twelve of the proposals came to a vote in 2003, receiving an average 10.8 percent support. Proponents withdrew two proposals, three were omitted, and one meeting was cancelled (see Table 5).

The 10.8 percent support is on par with the trend from the last few years, and continues a trend of gradual increase. An average of 9.5 percent support was received in 2002, an average of 9.8 percent support in 2001, 8.8 percent average support received in 2000 and 5.0 percent average support received in 1999. The high number of proposals relating to social issues in 2003 was due to United for a Fair Economy/Responsible Wealth’s (UFE) continuing campaign – in cooperation with several religiously affiliated investor – to address disparities between the treatment of the rank-and-file and executives within target companies’ compensation systems.

In 2003, there were two definable themes running through many of the proposals seeking to link executive pay with social criteria: examining the ratio of compensation between top executives and the lowest paid workers and predatory lending.

UFE submitted nearly identical proposals requesting that: (1) executive pay be frozen during layoffs, (2) a maximum ratio between the highest paid executive officer and the lowest paid employee be established, and (3) mandatory shareholder approval to approve severance packages exceeding two times annual salary be required, to Bristol-Myers Squibb, Coca-Cola, and Disney. Support ranged from 7.9 percent at Coca-Cola to 14.5 percent at Disney.

In 2003, investors affiliated with religious groups submitted the bulk of proposals (six) aiming to improve the lot of the company’s rank-and-file employees. The Catholic Funds submitted a proposal to Alcoa and El Paso seeking a report on pay disparity within the company, which would include the ratio between highest paid executives and lowest-paid workers in 1982, 1992 and 2002 as well as explanations of rationales for changes in this pay ratio. Similar proposals were submitted by Interfaith Center on Corporate Responsibility (ICCR) to AOL/Time Warner, Christian Brother Investment Service (CBIS) to Cisco, Sisters of Notre Dame to General Electric, Providence Trust to Honeywell International, and the Academy of Our Lady Lourdes to J.P. Morgan Chase.

In addition to pay disparity, predatory lending – the practice of making sub-prime, high-cost loans – is another concern for both UFE and Northstar Asset Management, a Boston-based firm that specializes in socially responsible investing. For the third year in a row UFE targeted Citigroup, requesting that the board conduct a review to study

ways to link executive compensation to resolving predatory lending practices. The proposal received 6.8 percent support, down from 7.3 percent from the previous year. Northstar submitted a similar proposal to Household International, but it was later withdrawn.

There was only one other proposal that sought to link executive pay to corporate social performance in 2003. The Catholic anti-abortion group Human Life International, submitted a proposal to Merck seeking to link pay to the company's social and ethical performance, referring to the company's embryonic research in the proposal's supporting statement.

**Table 5: Shareholder proposals on social criteria or pay ratios in 2003:**

<b>Company</b>	<b>Resolution</b>	<b>Proponent</b>	<b>Status</b>
Alcoa	review pay disparity	Catholic Funds	8.8%
AOL Time Warner	review executive compensation	ICCR	7.3%
Bristol-Myers Squibb	review executive compensation	UFE/Resp. Wealth	13.2%
Cisco Systems	review executive compensation	CBIS	9.1%
Citigroup	link executive pay to reducing predatory lending	UFE/Resp. Wealth	6.8%
Coca-Cola	review executive compensation	UFE/Resp. Wealth	7.9%
Disney (Walt)	review executive compensation	UFE/Resp. Wealth	14.5%
El Paso	review pay disparity	Catholic Funds	24.5%
EMC	review executive compensation	Catholic Funds	withdrawn
General Electric	review executive compensation	UFE/Resp. Wealth	omitted:1-11
General Electric	review executive compensation	Srs. Charity/Cincinnati	9.8%
Honeywell International	review executive compensation	Providence Trust	13.8%
Household International	link executive pay to reducing predatory lending	Northstar	meeting cancelled
J.P. Morgan Chase	review executive compensation	ICCR	8.4%
Johnson & Johnson	link executive pay to EEO advances	Conn. Retirement Plans	withdrawn
Merck	link executive pay to social criteria	Human Life Internat'l.	5.0%
Pfizer	review executive compensation	Srs. St. Francis/Phila.	omitted:1-3
Wal-Mart Stores	link executive pay to employee health insurance enrollment	SEIU	omitted:1-7

## SERP proposals

Proxy season 2003 was a bell-weather season for proposals related to SERPS (supplemental executive retirement plans), which provide pension pay beyond what a company's rank-and-file employees are eligible to receive, and other deferred executive compensation. This marked the first year that such a proposal passed, and there were also several notable policy changes adopted in the fact of proposals. Proposals on SERPs were first seen in 2002, when proponents sought the disclosure of a company's obligations under such plans as a part of total pension obligations.

The AFL-CIO made executive retirement compensation a key focus in 2003,(see Table 6), highlighting the issue on their popular executive paywatch website. The AFL-CIO explained, "While CEOs have attempted to justify their high compensation as being based on risk and tied to company performance, many executives have negotiated retirement benefits that promise a lifetime of income far exceeding what they would be entitled to under the retirement plans of their rank-and-file workers. The promise of a six- or seven-figure annual pension virtually guaranteed, no matter what happens to the company or its stock price-dramatically undermines the goal of pay linked to performance. Executives have received these extraordinary retirement benefits at the same time that workers are being asked to bear increased risk for their retirement security." (The website address is: <http://aflcio.org/corporateamerica/paywatch>).

The AFL-CIO then filed six proposals that sought shareholder approval of any extraordinary pension benefits for senior executives under the company's SERP. They negotiated withdrawals at four companies, including Coca-Cola when the company agreed to continue to phase out its Key Executive Plan. This would be accomplished by not adding any new participants to this SERP and reducing, dollar for dollar, its payouts by amounts payable under the company's retirement plan. At General Electric, the AFL-CIO withdrew its SERP proposal after GE agreed to

exclude its top five executives from participating in any future salary deferral plan that pays above-market interest rates (although existing deferred accounts are apparently not affected). The proposal at Bank One was withdrawn after the proponent learned that the company had renegotiated some SERP benefits with the CEO. Exelon agreed that beginning Jan. 1, 2004, it would seek shareholder approval before granting newly hired executives supplemental pension benefits in excess of any they are giving up at their previous employers. In return, the AFL-CIO withdrew its shareholder resolution.

The proposal filed at Wal-Mart was slightly different from the others, and urged that the board seek shareholder approval of future senior executives participation in the Wal-Mart Stores' Officer Deferred Compensation plan. Wal-Mart executives have a powerful incentive to defer as much compensation as possible—a complex but lucrative company “matching” feature that gives long-term participants substantial additional sums. Specifically, Wal-Mart's Deferred Compensation Plan includes a complex mechanism providing for substantial company credits to deferral accounts, which the company says is intended to promote retention. Under the plan, executives may defer up to 100 percent of their base salary and annual incentive awards each year. After 10 years from initial deferral, the company begins crediting the executive's account with an amount equal to 20 percent of the sum of the amount deferred (i.e. up to 20 percent of base salary), plus accrued interest, in each of the first six years after the initial deferral. In the 11th and subsequent years, the 20 percent matching contribution is based on the amount deferred five years earlier. Beginning after the 15th year from the initial deferral, the company credits the executive's deferral account with 10 percent of the principal amount deferred, plus accrued interest, in each of the first six years of the initial deferral. In the 16th and all subsequent years, this 10 percent matching company contribution is based on the amount deferred 10 years earlier.

Some shareholders oppose deferred compensation plans due to the liability they represent to the company. According to the proponents, Wal-Mart's deferred compensation plan is unfunded and payable out of the company's general assets, and “for this reason the associated liabilities can be significant. Participating executives are eligible to defer up to 100 percent of their salary and bonus. Wal-Mart does not disclose how many executives participate in the plan. The company does say, however, that the plan does not constitute a significant expense for the company.

**Table 6: Shareholder proposals on SERPs in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Bank One	AFL-CIO	withdrawn
Boeing	Machinists	14.7%
Coca-Cola	AFL-CIO	withdrawn
Exelon	AFL-CIO	withdrawn
General Electric	AFL-CIO	withdrawn
NiSource	Spelbring, R.	omitted – ordinary business
Sears, Roebuck	AFL-CIO	16.3%
U.S. Bancorp	AFL-CIO	51.6 %– passed
Wal-Mart Stores	AFL-CIO	21.3%

## Disclose executive compensation

For the 14th year in a row, Consolidated Edison faced a shareholder proposal submitted by Evelyn Y. Davis seeking expanded disclosure of executive compensation (see Table 7). J.P. Morgan Chase faced this proposal for the third year in a row. Davis is also broadened her field by targeting Ford Motors with this proposal, while Janet Keueger submitted a similar proposal to International Business Machines. The Hotel Employees & Restaurant Employees (HERE) International Union submitted a proposal to Hilton Hotels that asked the board to “provide a detailed accounting, including aggregated, projected costs associated with all executive retirement benefits, including but not limited to all forms of deferred compensation, split-dollar life insurance policies, Supplemental Retirement and Retention Plans, defined contribution pension benefits, defined benefit pension benefits, and stock options. The board's report should also present a comparison between these executive benefits and Hilton employee retirement benefits, including cost to shareholders and rates of participation.” Hilton successfully argued that the proposal could be excluded because the matter was one of “ordinary business.”

**Table 7: Shareholder proposals seeking increased compensation disclosure in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Consolidated Edison	Davis, E.	16.5%
Ford Motor	Davis, E.	10.3%
Hilton Hotels	HERE	omitted – ordinary business
International Business Machines	Krueger, J.	omitted – ownership
J.P. Morgan Chase	Davis, E.	8.4%

## Discontinue executive bonus

Four companies faced proposals asking them to stop awarding bonuses in 2003, all submitted by individual proponents, but only one such proposal went to a vote (see Table 8).

**Table 8: Shareholder proposals to discontinue executive bonuses in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Citigroup	Gavitt, T.	not presented
General Electric	Gavitt, A.	not in proxy
Mirant	Silver, G.	not in proxy
SBC Communications	Wallach, B. & M.	13.1%

## Require option shares to be held

Proxy season 2003 was the first in which proponents submitted proposals asking companies to require executives to hold shares gained from exercised options. The American Federation of State, County & Municipal Employees (AFSCME) submitted proposals to Adobe Systems and to Gateway, while LongView submitted a similar proposal to Maytag (see Table 9). The proposals specifically set the retention percentage at not less than 75 percent. AFSCME asked that the policy address the permissibility of transactions which do not constitute outright sales (such as hedging transactions under which executives may lock in gains without actually selling shares).

**Table 9: Shareholder proposals to require option shares to be held in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Adobe Systems	AFSCME	8.9%
Gateway	AFSCME	12.1%
Maytag	LongView	29.4 %

## Prohibit repricing

The repricing of underwater options, once a significant issue among investors and the subject of past shareholder activist campaigns, has been drawing less attention in recent years as the practice of repricing has been in decline. Only one proposal on this issue came to a vote in 2003. This decline likely resulted from new accounting procedures issued by the Financial Accounting Standards Board (FASB), under Interpretation No. 44 of Accounting Principles Board Opinion No. 25 (APB 25). Interpretation 44, which was finalized in July 2001, applies to all stock option repricing that occurred after Dec. 15, 1998. It makes repriced options subject to variable award accounting treatment, from the date of repricing until the date of exercise (or expiration/cancellation). Variable accounting means that the options are treated as an operating expense, and the difference between the new exercise price of a repriced option and any appreciation that subsequently occurs in the share price of the underlying stock must be charged against the company's earnings on a "mark-to-market" basis each quarter. This change in treatment can make it very expensive for a company to reprice out-of-the money stock options. Under Interpretation 44, any options reissued within six months after being cancelled are considered "repriced." If the company waits six months and one day before reissuing options, it can avoid variable tax treatment, however.

Sprint was the only company where the proposal was voted on in 2003 (see Table 10). It has been filed there three years in a row, in part to protest that fact that Sprint was the first company to reprice options using the now common “six months + one day plan” which alleviates the accounting penalty on the company.

**Table 10: Shareholder proposals to prohibit repricing in 2003:**

<b>Company</b>	<b>Proponent</b>	<b>Status</b>
Siebel Systems	LongView	omitted: duplicative
Sprint	CWA Member	33.0%

## Other executive compensation proposals

Shareholders submitted 24 other proposals on executive compensation in 2003(see Table 11).

Among these was the first binding proposal on executive compensation, filed at Mony Group. The proposal filed by Amanda Kirby-Kahn, with the assistance of the PACE union, sought to amend the company’s bylaws to prohibit any officer from receiving annual compensation in excess of the limits established by the U.S. Internal Revenue Code for deductibility of employee remuneration, without approval by a vote of the majority of the shareholders within one year preceding the payment of such compensation.

The proposal stipulated that the corporation could exclude compensation that qualifies either as performance-based compensation or as an incentive stock option within the meaning of the Internal Revenue Code, but only if it first disclosed to shareholders the specific performance goals and standards adopted for any performance-based compensation plan and if it expenses its stock options. The IRS code provides that publicly held corporations generally may not deduct more than \$1 million in annual compensation for any of the company’s five highest-paid executives, with exceptions for certain types of performance-based compensation. The proposal’s support of 38 percent was unusually high for a new and binding proposal.

Among the most highly supported of the miscellaneous executive compensation proposals were those that asked boards to submit all equity compensation plans for shareholder approval. At the Cheesecake Factory – where more than 800 employees receive option grants under a non-shareholder approved plan adopted by the board in 2000 – the proposal passed with 56.4 percent support. A similar proposal filed by the Rossi family at Colgate-Palmolive, also received a solid level of support, with 37.3 percent of shares voted in favor of the proposal. These may be the last year these proposals are filed, however, as new exchange listing requirements stipulate such changes.

A proposal filed by TIAA-CREF asked companies to include the following provisions in all incentive compensation plans that allow for stock or option grants to senior executives:

- Performance “hurdles” that must be met, or “indexing” features that govern the vesting of options or lapsing of restrictions on shares granted;
- Holding periods for a substantial portion of shares awarded and earned through stock-related plans; and
- Other measures to ensure that executives face downside financial risk, which they do not face with standard fixed-price stock options.

Following the vote at one of TIAA CREF’s target companies -- SBC Communications -- Peter Clapman, TIAA CREF’s senior vice president and chief counsel, corporate governance told IRRC, “We are very pleased that a large portion of SBC shareholders recognized that mega grants of fixed price stock options are not in their interest.”

In its 2004 proxy statement, SBC Communications announced that the compensation committee has decided to avoid the use of stock options and time-based restricted stock and to rely on performance shares in 2004 as long term compensation. The compensation committee notes, “The value of performance shares fluctuate (sic) directly with changes in the price of SBC stock (each performance share is equal in value to a share of SBC stock), which ties managers' interests directly to those of stockholders. The performance shares are paid out only to the extent specific internal financial and/or operational objectives are achieved. No payout is made if minimum objectives are not met. Payouts, when earned, will be paid in a combination of stock and cash. For performance shares granted in 2004 to executive officers, the target is based on return on invested capital (net income before extraordinary items plus after-tax interest expense divided by average debt and average shareholder equity). The performance shares for

the chief executive officer are based 75 percent on return on invested capital and 25 percent on the comparison of SBC's total shareholder return (stock appreciation plus reinvestment of dividends) compared to companies in the North American Telecom Index, excluding equipment manufacturers, and adding AT&T Wireless, Cox Cable, Comcast, and Time-Warner.”

A proposal filed by Donald Hudgens at ConAgra contained similar restrictions on option plans as those proposed by TIAA-CREF, and offered a few additional ones as well, including prohibiting option vesting acceleration, and limiting the life of options. He also urged the company to establish a policy that an employee or director's unvested options will terminate if that person leaves the company for any reason other than having reached the mandatory retirement age. Finally, he stipulated that shares covered by unvested stock options not be returned to the pool of shares available for future grant. The proposal was supported by 11.1 percent of votes cast.

Other proposals included:

- The Plumbers and Pipefitters' fund filed a proposal at ChevronTexaco and HCA requesting that the compensation committee meet with the company's CEO to review ways that the CEO can voluntarily reduce his compensation to more reasonable and justifiable levels and to report the outcome in next year's proxy statement.
- AmSouth faced, for the second year, Elton Shepherd's proposal seeking to terminate the company's restricted stock program until it issues a formal explanation of its restricted stock plan. Shepherd submitted a similar proposal to Coca-Cola.
- R. Friedman filed a proposal at Abbott Laboratories urging the board to refuse to grant bonuses, pay raises, stock options, restricted stock or any benefits, other than salary, to the executive officers in any year that the company or its subsidiaries pay any government fines of more than \$15 million. The proponent said that operating in ways that incur government fines was unacceptable to shareholders, and noted that the executives received bonuses, options and restricted stock, at the same time that the company paid more than \$650 million in fines to the government. That proposal was supported by 6.5 percent of votes cast.
- S. Schneider filed a proposal at Bristol-Myers Squibb urging the company to restrict executive pay by prohibiting discretionary income for any year that the total return of the company's common stock does not reach some predetermined threshold relative to a peer group. The proponent defined discretionary income as non-base-salary cash payments. The proposal was supported by 11.8 percent of votes cast.
- Milacron faced a proposal for the second year in a row, submitted by Stephen Sawzin, that asked the board to consider (1) reducing the base salaries of all executive officers and directors, (2) discontinuing the grant of incentive awards under the company's 1997 Long Term Incentive Plan and (3) having executives participate solely in the employee retirement plan. Sawzin's proposal was explicit in limiting its scope to Milacron's executive management and board, and it was supported by 34.3 percent of votes cast, compared with the 19.3 percent support it received in 2002.
- Curtis W. Lee resubmitted a proposal to National Fuel Gas asking the board to limit dilution under the company's compensation plan to no more than 1 percent per year. The proposal came to a shareholder vote and received 12.7 percent support, slightly less than the 13.2 percent support it received last year.
- John Soldoveri filed a proposal at Selective Insurance Group requesting that the board restrict senior executive and director compensation – issuing no option grants and capping current salary – until the company achieves at least a 12 percent average return on equity for two successive years. The proposal won support of 17 percent of shareholders.
- A proposal submitted to St. Paul by Peter Breyfogle sought to eliminate the Senior Executive Performance Plan, which was approved by shareholders in 2002. According to the plan, the board has discretion to award cash or stock-based bonuses to the CEO and top four senior executives from a bonus pool, the size of which is linked to the company's return on equity. The proposal received among the lowest levels of support, only 5.8 percent.

Finally, 2003 saw fewer proposals on pension fund surplus reporting than 2002, but the proposals received higher votes. The proposals asked the boards to adopt a policy that determines future awards of performance-based compensation for executive officers using a measure of earnings per share that does not include non-recurring accounting rule income, particularly “pension credits” resulting from increases in the employee pension fund surplus. Earnings by pension funds were quite large during the bull markets, are reported as company income. Several analysts have raised concerns that pension fund income is masking real income at a number of companies, and for the first time in 2001 shareholders linked these so called “vapor profits” to executive compensation. International Business Machines, Delta AirLines, and Qwest faced the proposal in 2003 and it received average support of 48.1 percent. At Qwest the proposal was supported by management and received support of 96 percent of shareholders. Without that proposal in the equation, the proposal’s average level of support was 24.3 percent, similar to the 2002 average of 25.9 percent.

**Table 11: Other shareholder proposals on executive compensation in 2003:**

<b>Company</b>	<b>Resolution</b>	<b>Proponent</b>	<b>Status</b>
Abbott Laboratories	restrict executive compensation	Friedman, R.	6.5%
Amouth Bancorporation	terminate restricted stock program	Shepherd, E.	13.3%
Autodesk	add restrictions to incentive compensation plans	TIAA-CREF	withdrawn
Bristol-Myers Squibb	prohibit discretionary income if threshold isn't met	S. Schneider	11.8%
Cheesecake Factory	vote on all stock-based compensation plans	Cullinary Workers	56.4% - passed
ChevronTexaco	negotiate executive compensation reduction	Plumbers, Pipefitters	14.5%
Coca-Cola	no restricted stock grants	Shepherd, E.	5.6%
Colgate-Palmolive	vote on all stock-based compensation plans	Rossi Family	37.3%
ConAgra Foods	add restrictions to incentive compensation plans	Hudgens, D.	11.1%
Delta Air Lines	pension fund surplus reporting	Airline Pilots	30.2%
Eaton	performance-based compensation system	Collins, J.	omitted: proof of ownership
Entergy	establish direct stock purchase plan	Pennino, D.	omitted: ordinary business
General Electric	report on retirement agreements	Conn. Retirement Plans	withdrawn
HCA	negotiate executive compensation reduction	Plumbers, Pipefitters	5.6%
Intel	vote on all stock-based compensation plans	Rossi Family	omitted: substantially implemented
International Business Machines	pension fund surplus reporting	Parry, D.	18.3%
Milacron	restrict executive compensation	Sawzin, S.	34.3%
Mony Group	restrict compensation to deductibility limits	Kahn-Kirby, A.	38.0%
Qwest Communications International	pension fund surplus reporting	Floyd, H.	96.0%
SBC Communications	add restrictions to incentive compensation plans	TIAA-CREF	35.4%
Selective Insurance Group	restrict compensation until performance thresholds are met	Soldoveri, J.	17%
St. Paul	terminate the Senior Executive Performance Plan	Breyfogle, P.	5.8%
Siebel Systems	add restrictions to incentive compensation plans	TIAA-CREF	37.2%

## Employee compensation and pensions

In addition to covering shareholder proposals on executive compensation, this report looks at proposals concerned with employee compensation and pensions. The year 2001 was the first that witnessed a wave of shareholder proposals relating to employee pensions, including those that sought to have employee pension plan monies removed from the calculation of performance. This may be due in part to an apparent reversal of SEC policy allowing proposals concerning companies' conversion of traditional, defined-benefit pension plans to defined-contribution cash balance pension plans to appear in proxies. The SEC ruled in 2000 that public attention focused on the issue meant that it was no longer considered ordinary business.

### Provide pension choices

In 2003, the only employee-pension related proposals to come to a vote were those submitted at AT&T, Boeing and International Business Machines, seeking to allow certain employees the choice between defined benefit pension plans and defined contribution pension plans. The IBM proposal has been coming to a vote since 2001 due to an uproar created in 1999, when the company converted its traditional defined benefit pension plan into a cash-balance, defined contribution plan. Defined benefit plans reward employees for long service while cash-balance plans tend to treat all workers equally. A typical traditional plan accrues benefits based on a percentage factor, multiplied by the number of years of service, multiplied by the participant's final five-year average base pay. Cash-balance plans instead annually reserve a fixed percentage of base salary, plus interest, and are portable. Critics say conversions to cash-balance plans may hurt older workers and are often motivated by companies' desire to inflate their book profits with surpluses in their pension trust funds that are freed up by the conversion.

The SEC allowed a number of companies to omit that sought to increase employee compensation and perquisites, because the commission said they related to ordinary business.

**Table 12: Employee compensation and pension shareholder proposals in 2003:**

Company	Resolution	Proponent	Meeting Date
Allete	COLA for pensions	Johnson, J.	May 13
American International Group	get consent of insured employee	AFL-CIO	withdrawn
AT&T	provide pension choices	Domini	8.6%
Boeing	provide pension choices	Shuper, D. & G.	12.2%
Gannett	amend pension plan	Wehling, R.	omitted
GenCorp	increase pension benefits	Briggs, L.	omitted
General Electric	increase pension benefits	Lennox, R.	omitted
International Business Machines	provide pension choices	Leas, J.	14.1%
Alaska Air Group	report on employee stock ownership	Robinson, A.	not in proxy
General Motors	report on pension accounting	Naylor, B.	omitted
Lucent Technologies	report on pension fund investments	Jamgochian, D.	omitted

## II. The 2004 Proxy Season Lineup

As this report is going to press, IRRC is aware of 250 shareholder proposals on executive pay and 6 proposals on employee compensation. This is just slightly less than the number tracked last year at this time. The large number of shareholder proposals submitted for 2004 is due, in large part, to the activities of union-affiliated pension funds, which have submitted approximately 70 percent of the compensation proposals tracked. Alone, funds affiliated with the United Brotherhood of Carpenters and Joiners of America submitted approximately 48 compensation proposals.

For a complete list of executive compensation shareholder proposals filed for 2004, organized by company, see Appendix B. The following discussion highlights the major executive pay proposals in 2004.

### Replace compensation practices with ‘commonsense’ program.

Several funds affiliated with the building trade unions are attempting to overhaul their executive compensation practices and replace them with what the proponents call “commonsense executive compensation.” It is perhaps the most ambitious of this year’s new proposals, and has been widely filed at a total of 67 companies. The proposal attempts a more systematic look at compensation practices. “We’re beginning to set the standard by which our companies’ compensation policies will be judged,” a fund representative told IRRC, adding that the introduction of these proposals marks the beginning of a multi-year process. The criteria espoused in the Commonsense Executive Pay Proposal match those used by the Worker Owner Council of Washington state in a report that analyzed executive compensation practices at local companies. The council, one of several begun in the past three years by building trades unions, says its mission is to “monitor the corporate governance and financial performance of Washington-based corporations and advocate progressive governance reforms that promote the long-term enhancement of corporate value.” Other councils are expected to conduct similar studies.

The proponents explain their rationale in their supporting statement: “We believe that compensation paid to senior executives at most companies, including ours, is excessive, unjustified, and contrary to the interests of the company, its shareholders, and other important corporate constituents.”

The proposal asks companies to replace its current compensation practices with a “commonsense” program including the following features:

- (1) **Salary** - The CEO’s salary should be targeted at the mean of salaries paid at peer group companies, and should not exceed \$1 million annually. No senior executive should be paid more than the CEO.
- (2) **Annual Bonus** - The annual bonus paid to senior executives should be based on well-defined quantitative (financial) and qualitative (non-financial) performance measures. The maximum level of annual bonus should be a percentage of the executive’s salary level, capped at 100 percent of salary.
- (3) **Long-Term Equity Compensation** - Long-term equity compensation to senior executives should be in the form of restricted shares, not stock options. The restricted share program should utilize justifiable performance criteria and challenging performance benchmarks. It should contain a vesting requirement of at least three years. Executives should be required to hold all shares awarded under the program for the duration of their employment. The value of a restricted share grant should not exceed \$1 million on the date of grant.
- (4) **Severance** - The maximum severance payment to a senior executive should be no more than one year's salary and bonus.
- (5) **Disclosure** - Key components of the executive compensation plan should be outlined in the compensation committee's report to shareholders, with variances from the commonsense program explained in detail.

“We believe that it is long past time for shareholders to be proactive and provide companies clear input on the parameters of what they consider to be reasonable and fair executive compensation. The commonsense executive compensation principles seek to focus senior executives, not on quarterly performance numbers, but on long-term corporate value growth, which should benefit all the important constituents of the company,” says the proposal’s

supporting statement. “We challenge our company's leadership to embrace the ideas embodied in the commonsense proposal, which still offers executives the opportunity to build personal long-term wealth but only when they generate long-term corporate value.”

The proposal has been challenged at the SEC by a number of companies. Ohio Casualty attempted to have the proposal excluded on three grounds: i-3 that it was false and misleading; i-7 that it pertained to the “ordinary business” of the company, and i-10 that the reforms had already been implemented. The SEC’s Division of Corporation Finance ruled that it could not be excluded on any of these grounds. El Paso raised additional grounds in its no action appeal, arguing that the proposal would be a violation of state law and beyond the company’s power to implement. The SEC also ruled that the proposal could not be excluded on these grounds. Each appeal is considered separately though, and some companies that raised the “false and misleading” argument met with limited success. The Division ruled that proponents at AT&T Wireless and CVS needed to recast a section of the supporting statements of the proposals as the proponents’ opinions.

The proposal has been withdrawn at at least 21 companies for a range of reasons. In a number of cases proponents agreed to at least one aspect of the proposal: enhanced disclosure. The specifics vary from company to company, although a number of them, including Boise Cascade, Time Warner, First Tennessee National, International Paper, NCR, and Dominion Resources, will offer increased information on the quantitative and qualitative performance goals used in determining aspects of compensation. Time Warner will also disclose additional information about peer groups and how they are used in analyzing executives’ total compensation. Dominion Resources will include more information on the peer group, how median percentile is determined, and provide more detail on the company’s move away from stock options to restricted shares.

In a number of cases, proponents learned in meetings with the company of “developing” plans on compensation reform. Time Warner representatives explained that they were increasing the time-lapsing of restricted stock to four years, and indicated that they are doing extensive examination of other means of delivering long-term equity compensation, including “premium priced restricted shares.” NCR assured the proponents that as it transitions to more restricted stock it anticipates the introduction of performance criteria for restricted shares. At MBNA, the proponents learned that the company is undergoing significant changes in executive compensation at the urging of the compensation committee, including a reduction in options and in overall compensation levels. Electronic Data Systems revealed that developing changes at the company include the use of premium-priced options, the development of a new long-term equity compensation plan, selling restrictions on shares received under the plans, and the use of company implemented change-in-control agreements that are substantially lower in value. Several companies agreed to additional meetings on the topic. At MBNA, the proponents will meet with the chair of the board’s compensation committee.

**Table 13: Shareholder proposals regarding commonsense executive compensation policies in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Abbott Labs	UBC	omitted I-11
Aetna	UA	April 30
Apple Computer	UBC	April 22
AT&T Wireless Services	UA	May 20
Bank of New York	Laborers	April 13
BellSouth	UBC	April 26
Best Buy	IBEW	Withdrawn
Black & Decker	UBC	April 27
Boise Cascade	UBC	Withdrawn
Charles Schwab	SMWIA	Withdrawn
Citigroup	UBC	Withdrawn
Comcast	UBC	May 26
ConocoPhillips	UBC	May 5
Constellation Energy	UBC	May 21
CVS	UBC	May 12
Delta Air Lines	LIUNA	April 23
Deluxe Corp.	IBEW	May 4
Dominion Resources	UBC	Withdrawn

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Dow Chemical	UA	May 13
Duke Energy	UBC	Omitted: E-2
E.W. Scripps	UA	Omitted: b-1
Echostar Communications	LIUNA	May 6
Ecolab	UA	Withdrawn
El Paso	Laborers	May 20
Electronic Data Systems	UBC	Withdrawn
EMC Corp	SMWIA	May 5
First Tennessee National	UBC	Withdrawn
Fleet Boston Financial Group	SMWIA	April 2004
Gannett	UBC	May 4
Gap	UA	May 2004
Hartford Financial Services Group	Laborers	May 20
Illinois Tool Works	UA	Withdrawn
International Flavors/Fragrances	UA	Withdrawn
International Paper	UBC	Withdrawn
Interstate Bakeries	Teamsters	September 2004
Kimberly-Clark	SMWIA	Withdrawn
Lilly (Eli)	SMWIA	April 19
Manor Care	SMWIA	May 5
MBNA	UBC	May 3
Merck	UA	April 27
Merrill Lynch	IBEW	Omitted: b-2
Milacron	SMWIA	Not available
Motorola	UA	May 3
NCR	UBC	Withdrawn
Novellus Systems	LIUNA	April 16
Occidental Petroleum	UA	Withdrawn
Ohio Casualty	SWMIA	April 21
Owens-Illinois	LIUNA	May 12
Pfizer	UA	April 22
PG&E	SMWIA	April 21
Provident Financial Group	SMWIA	May 20
Raytheon	UA	May 5
Reebok International	SMWIA	Withdrawn
Schwab (Charles)	UA	withdrawn
Scripps (E.W.)	UA	Omitted: b-1
Siebel Sytems	LIUNA	June 2004
St. Jude Medical	UA	May 12
Staples	UBC	June 2004
Time Warner	UBC	Withdrawn
Tyco International	UBC	March 25
U.S. Bancorp	UBC	April 20
Union Planters	UBC	April 15
Washington Mutual	SMWIA	Withdrawn
Watson Pharmaceuticals	UA	May 2004
Wells Fargo	LIUNA	April 27
Williams	LIUNA	May 20

## Performance-based compensation and restricted stock

As compensation experts are predicting an increased reliance on restricted stock as a compensation device, several union funds are seeking to ensure that the restricted stock meets their criteria. A new proposal authored by the building trades asks companies and to utilize performance- and time-based restricted share programs in lieu of stock options when they are developing future senior executive equity compensation plans, and includes requirements for how that must be accomplished. The proposal stipulates that the restricted shares include the following provisions:

(1) Operational Performance Measures—The restricted share program should utilize justifiable operational performance criteria combined with challenging performance benchmarks for each criteria utilized. The performance criteria and associated performance benchmarks selected by the compensation committee should be clearly disclosed to shareholders.

(2) Time-Based Vesting—A time-based vesting requirement of at least three years should also be a feature of the restricted shares program. That is, in addition to the operational performance criteria, no restricted shares should vest in less than three years from the date of grant.

(3) Dividend Limitation—No dividend or proxy voting rights should be granted or exercised prior to the vesting of the restricted shares.

(4) Share Retention—In order to link shareholder and management interests, a retention feature should also be included; that is, all shares granted pursuant to the restricted share program should be retained by the senior executives for the duration of their tenure with the company.

The supporting statement of this proposal notes, “In our opinion, performance- and time-based restricted shares provide a better means to tie the levels of equity compensation to meaningful financial performance beyond stock price performance and to condition equity compensation on performance above that of peer companies.”

Other labor funds have also filed proposals on the issue. AFSCME filed a proposal Home Depot that recommends linking the vesting of restricted stock awards to the achievement of performance goals. The AFL-CIO filed a proposal at Intel urging the company’s compensation committee to: “use performance-vesting stock in the development of future equity compensation plans for senior executives. Restricted share grants for senior executives should include performance-vesting measures and share retention requirements to ensure that future equity compensation plans reward extraordinary performance and promote stock ownership.” SEIU also filed a proposal at Intel (it faces a challenge at the SEC on the grounds that it is duplicative of the AFL-CIO’s proposal), that a significant portion of future option grants be performance-based.

With the emphasis on performance-based restricted stock, only a relatively few proposals filed this year focus on performance-based stock options. One of these, filed at United Technologies by the LongView Fund urges the board to adopt a policy that a significant portion of future stock option grants to senior executives be performance-based.

The proponent defined this as either:

- (1) indexed options, with an exercise price linked to an industry index;
- (2) premium-priced stock options, with an exercise price above the market price on the grant date; or
- (3) performance-vesting options, which vest when the market price of the stock exceeds a specific target.

Longview says, “Investors and market observers, including Warren Buffett, Alan Greenspan and Al Rappaport, have criticized standard options as inappropriately rewarding mediocre or poor performance. Mr. Buffett has characterized standard stock option plans as ‘really a royalty on the passage of time,’ and all three favor using indexed options.”

Calpers has filed a proposal at Novell requesting that (i) 75 percent of future equity compensation (*e.g.*, stock options and restricted stock) of senior executives be performance-based and (ii) the board disclose details of such compensation to shareholders.” The proponents define performance based similarly to LongView on its first two points, but with more detail on the third point.

- (3) performance-vesting options or restricted stock, which vest (i) when the company exceeds objectives with respect to specific performance metrics, such as return on invested capital, return on assets and/or return on equity, or any weighted mix of such metrics, or (ii) when the stock’s market price exceeds a specific target.

Calpers says it believes that Novell’s compensation policies are not appropriately linked to performance. They note, “The company provided substantial bonuses to top executives in 2002, a year in which the company lost more than \$246 million and during which the company’s stock price depreciated by more than 34 percent. Additionally, the company’s stock has lost over 60 percent of its market value over the last five years while its peer group, as measured by the S&P 500 IT Index, has only lost approximately 15 percent of its value. While the company says it bases bonuses on ‘corporate results and individual performance,’ Novell has not disclosed the specific metrics used to justify such bonuses.”

Calpers had submitted a similar proposal at PeopleSoft, but withdrew it when the board agreed to base 50 percent of the options and restricted shares given to its CEO Craig Conway and the four other highest-paid company executives on performance targets set by the board. The proposal may have been filed at additional companies.

Another proposal included in this category this year is one filed by a number of individual shareholders seeking to tie compensation to dividends.

The building trades version of the restricted stock proposal has also been challenged at the SEC and survived. ICOS attempted to bar the proposal on the grounds that it was false and misleading, but did not succeed. The proposal has however, been excluded at Goodrich, where the company plans to have a management proposal on the proxy to amend its current stock option plan, increasing the number of securities available for issuance under that plan. The SEC responded to Goodrich by noting, “You indicate that the proposal and the matter sponsored by Goodrich present alternative and conflicting decisions for shareholders and that submitting both proposals to a vote could provide inconsistent and ambiguous results. Accordingly, we will not recommend enforcement action to the commission if Goodrich omits the proposal from its proxy materials in reliance on rule 14a-8(i)(9).

This restricted stock proposal also will be omitted from the proxy at Constellation Energy. The SEC’s Division of Corporation Finance agreed with the company that it was substantially duplicative of the commonsense executive compensation proposal submitted by another building trades’ fund, which lists restricted stock as one of its points of reform. This decision may have implications at three other companies where both proposals were also filed: Delta Air Lines, Motorola, and Williams. IRRC is not aware of whether these companies have filed the same challenges.

At least eight of the restricted share proposals have been withdrawn. In some cases, such as at Kerr-McGee and Puget Energy, positive discussions, and information on the current plan reassured the proponents. Kroger agreed to enhance disclosure of the compensation committee’s evaluation and use of stock-based initiatives. Equifax explained its consideration of the inclusion of performance measures for its restricted shares, and agreed to review its plans annually. It also disclosed ownership guidelines established for officers making more than \$100,000. The proponent engaged in several conversations with Goodrich, and the company announced that it plans to eliminate the immediate vesting of options and make greater use of restricted shares. The proposal at Eastman Kodak was withdrawn after the company issued new corporate governance guidelines, that included agreeing to expense options, adopting new board independence standards, implementing a new director selection process and adopting a director code of conduct.

**Table 14: Shareholder proposals on restricted shares in 2004**

<b>Company</b>	<b>Proponent</b>	<b>Proposal</b>	<b>Meeting Date</b>
Allegheny Technologies	LIUNA	restricted shares	May 6
Amazon.com	IBEW	restricted shares	May 26
AmSouth Bancorporation	Shepherd, E.	restricted shares	Omitted: I-7
Aquila	Boyd, C.	tie compensation to dividends	May 5
Ascential Software	Calpers	award performance-based stock options	June 2004
Bank of America	Sheet Metal Workers	restricted shares	May 26
Calpine	IBEW	restricted shares	May 26
CenterPoint Energy	SMWIA	restricted shares	June 3
Coca-Cola	Shepherd, E.	restricted Shares	April 21
ConocoPhillips	UA	restricted shares	May 5
Constellation Energy Group	UA	restricted shares	Omitted: I-11
Cooper Industries	UA	restricted shares	April 27
Cytec	Vincent, M.	tie compensation to dividends	Omitted: I-13
Delta Air Lines	SMWIA	restricted shares	April 23
Delta Air Lines	Teamsters	restricted shares	April 23
Dynergy Class A	UA	restricted shares	May 20
Eastman Chemical	UBC	restricted shares	May 6
Eastman Kodak	UA	restricted shares	Withdrawn
Equifax	UBC	restricted shares	April 28
FirstEnergy	Rorick, W.	tie compensation to dividends	May 18
Genuine Parts	UBC	restricted shares	April 19
Genzyme	SMWIA	restricted shares	May 27
Goodrich Corp.	UBC	restricted shares	Omitted: I-9
Home Depot	AFSCME	restricted stock performance goals	May 2004
ICOS	UBC	restricted shares	May 14
Intel	SEIU	award performance-based stock options	May 19
Intel	AFL-CIO	performance-based restricted shares	May 19
Kerr-McGee	UA	restricted shares	Withdrawn

<b>Company</b>	<b>Proponent</b>	<b>Proposal</b>	<b>Meeting Date</b>
Kohl's	UA	restricted shares	April 28
Kroger	UBC	restricted shares	June 2004
Moody's	LIUNA	restricted shares	April 27
Moody's	UBCJA	restricted shares	April 27
Motorola	SMWIA	restricted shares	
Novell	Calpers	award performance-based stock options	April 15
Paccar	UBC	restricted shares	April 27
PepsiAmericas	Teamsters	restricted shares	April 22
Proctor & Gamble	Teamsters	restricted shares	Oct 12
Pugent Energy	SMWIA	restricted shares	May 4
SAFECO	UBC	restricted shares	May 5
Schering-Plough	LongView	award performance-based stock options	April 27
Sprint	IBEW	award performance-based stock options	April 20
TECO Energy	UBC	restricted shares	April 28
Teradyne	UBC	restricted shares	May 27
Textron	UBC	restricted shares	April 28
Thermo Electron	SMWIA	restricted shares	May 2004
Torchmark	UBC	restricted shares	April 29
Tyco International	UA	restricted shares	Not in proxy
U.S. Bancorp	UA	restricted shares	April 20
Union Pacific	Locomotive Engineers	restricted shares	March 16
Unisys Corp	UA	restricted shares	Withdrawn
United Technologies	LongView	award performance-based stock options	April 14
UnitedHealth Group	SMWIA	restricted shares	
Unocal	UBC	restricted shares	May 24
Wal-Mart	UA	restricted shares	Omitted: E-2
Waste Management	SMWIA	restricted shares	May 14
Weingarten Realty Inve.	UBC	restricted shares	April 23
Weyerhaeuser	Teamsters	restricted shares	April 13
Williams	UA	restricted shares	May 20
Woodward	English, G.	performance based compensation system	Omitted: I-3
Xcel Energy	Rorick, W.	tie compensation to dividends	May 20

## Expense stock options

The building trades' funds are refiling this proposal at a number of companies where they filed it last year, but only where the proposal received less than 50 percent support. Typically, proponents refile at companies where they received the highest levels of support, but in this case, Carpenters' representative Ed Durkin says, conversations at those companies indicated, "Most of them got the message." This year, the funds filed these proposals primarily at industries that have publicly resisted FASB accounting rule changes on this issue, including the semiconductor and software industries. The funds also looked more selectively at which companies had the largest option grants.

Option expensing proposals were resubmitted by AFSCME at PeopleSoft, MBNA, Siebel Systems and UnitedHealth Group. Last year AFSCME's proposal at MBNA received 52.1 percent of the votes cast.

**Table 15: Shareholder proposals regarding expensing options in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Adobe Systems	UBC	April 28
Allegheny Technologies	Moser, J.	April 23
Allergan	LIUNA	April 28
Allied Waste Industries	SMWIA	May 2004
Altera Corp	Teamsters	May 11
American Electric Power	SMWIA	Withdrawn
Amgen	SEIU	May 13
Anthem	UA	May 17
Boise Cascade	LIUNA	Not available
Calpine	UA	May 26
Citrix Systems	UBC	May 13
Convergys	LIUNA	April 27
Dell	AFL-CIO	July 2004

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Donnelly (R.R.) & Sons	UA	April 2004
eBay	IBEW	June 2004
El Paso	UA	May 20
Electronic Data Systems	AFL-CIO	May 25
FirstEnergy	SMWIA	May 18
Gap	SWMIA	Not available
Gillette	Plumbers, Pipefitters	May 20
Guidant Corp.	UA	May 18
Hewlett-Packard	LIUNA	March 17
Intel	UBC	May 19
International Business Machines	Plumbers, Pipefitters	April 27
International Business Machines	UA	April 27
International Paper	AFL-CIO	Not available
J.P. Morgan Chase	UA	May 2004
Kinder Morgan	LIUNA	May 11
Kohl's	UBC	April 28
MBNA	AFSCME	May 3
MeadWestvaco	LIUNA	withdrawn
Novell	LIUNA	April 15
NVIDIA	LIUNA	July 2004
PeopleSoft	AFSCME	March 25
PeopleSoft	UA	March 25
PepsiCo	Teamsters	May 5
Perkin Elmer	UBC	April 27
PPG	Teamsters	Withdrawn
Progress Energy	UBC	May 12
Raytheon	AFL-CIO	May 5
Safeway	UA	May 20
Siebel Systems	AFSCME	June 2004
Siebel Systems	UBC	June 2004
Starbucks	UBC	Withdrawn
TECO Energy	LIUNA	April 28
Texas Instruments	LIUNA	April 15
UnitedHealth Group	AFSCME	May 12
Vectren	SMWIA	April 28
Weyerhaeuser	UBC	April 13
Yahoo	UBC	May 21

## Stock holding periods

Proposals requiring holding periods on shares received from exercising options were filed for the first time in 2003, but appear to be gaining in popularity. Stories of Enron executives who exercised options and sold their stock as the company imploded may well have been one of the inspirations for these proposals. IRRRC is tracking nine such proposals expected to come to a vote in 2004. Some of the proposals, such as the one filed at Boeing, request a policy that requires senior executives and directors to hold 75 percent of shares obtained by exercising stock options throughout their tenure at the company. The proposals submitted by Charles Nelson and by the IBEW are slightly stronger. They include restricted stock and set the holding period at 90 days following employment termination. These proposals also apply to all shares rather than 75 percent, “except to the extent necessary to pay the exercise price and/or any accompanying tax obligations.” Table 16 summarizes these proposals.

**Table 16: Shareholder proposals regarding requiring holding periods on option shares in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Adobe Systems	AFSCME	April 28
Allegheny Energy	Whalen, J.	April 23
AutoDesk	AFSCME	June 2004
Bed Bath Beyond	AFSCME	June 2004
Boeing	Watt, D.	May 3
General Electric	Steiner, W.	April 28
General Motors	Hirsch, T.	June 2
Reliant Resources	Nelson, C.	June 2
TXU	IBEW	May 21

## Abolish stock options

For 2004 no institutional shareholders are filing these proposals. They have been taken up, however, by individual proponents, particularly Robert Morse who has filed five.

**Table 17: Shareholder proposals regarding abolishing stock options in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Baxter International	Siegman, J.	May 4
Coca-Cola	Morse, M.	April 21
Crown Holdings	Morse, R.	Omitted: I-9
General Motors	Morse, R.	June 2
Intel	Morse, R.	omitted: b-2
Merck	Morse, R.	March 27
NCR	Morse, R.	March 28
Washington Mutual	Harris, T.	Omitted: I-1

## Cap Executive Pay

A number of proposals this year seeking a cap on executive compensation were filed by investors affiliated with the Interfaith Center on Corporate Responsibility who believe that the growing gap between the pay of workers and CEOs is not only bad for individual companies but for society as a whole. The proposals urge the board of directors:

- To limit the compensation paid to the CEO in any fiscal year to no more than 100 times the average compensation paid to the company's non-managerial workers in the prior fiscal year, unless the shareholders have approved paying the CEO a greater amount;
- In any proposal for shareholder approval, to provide that the CEO can receive more than the 100-times amount only if the company achieves one or more goals that would mainly reflect the CEO's contributions; and
- In that proposal, to provide for grants to the CEO of stock options or other equity only if the company provides equity compensation to all fulltime employees such that they would participate proportionately in stock performance.

Companies continue to oppose these proposals, arguing that compensation is driven by competitive market forces and that caps would limit their ability to attract, motivate and retain executives.

A proposal at Sprint this year by George Speight, who is affiliated with the Communication Workers asks the board of directors to “establish a cap on the total compensation that may be paid to the CEO in a given year – including salary, bonus, the grant-date present value of stock options, the grant-date present value of restricted stock, payments under long-term incentive plans, and “other annual” and “all other compensation” – equal to 50 times the average compensation paid to employees who are not exempt from coverage under the Fair Labor Standards Act in the prior year, and to report to shareholders on the policy prior to the 2005 annual shareholders’ meeting.” The proposal filed at Avaya asks for a similar cap but does not ask for a report.

A proposal at National Fuel Gas seeks that the board limit all executive compensation plans so that additional potential share dilution attributable to awards to executive officers does not exceed 1 percent of outstanding shares per year. The proponent notes that in August 2003 the stock was trading at 1999 levels, while compensation since that time has “exploded.” The company describes the proposal as “unnecessary, unwise, and ... motivated by the personal grievances of the proponent, who is the life companion of a disgruntled ex-employee who has repeatedly submitted a similar proposal.”

**Table 18: Shareholder proposals regarding capping executive pay in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
Alliant Energy	Rorick, W.	omitted: 1-7
Avaya	Pennington, P.	February 26
BellSouth	Baechle, R. & C.	April 26
Cendant	ICCR	April 20
Delta Air Lines	ICCR	withdrawn
Metlife	ICCR	April 27
National Fuel Gas	Teaticket, R.	February 19
Reliant Resources	Jordan, D.	June 2
SBC Communications	O'Halloran, J.	Omitted: b-2
Sprint	Speight, G.	April 20
Viacom	ICCR	withdrawn

## SERP Proposals

The AFL-CIO's proposals on supplemental executive retirement plans (SERPs) seek shareholder approval of "any extraordinary pension benefits for senior executives under the company's supplemental executive retirement plan (the 'SERP')." The AFL-CIO defines a SERP as "any plan that supplements executives' retirement pay with nonqualified benefits above compensation limits set by the Internal Revenue Code," and extraordinary benefits as "receipt of additional years of service credit not actually worked, preferential benefit formulas not provided under the Company's qualified pension plan, or the accelerated vesting of pension benefits."

The proponents notes that SERPs are unfunded plans and payable out of the Company's general assets, and the associated pension liabilities can be significant.

The proposal at U.S. Bancorp provides specific critique of that company's SERP. Last year 51.6 percent of votes cast supported this proposal. The company notes that the proposal focuses on retirement benefits currently in effect for the former chairman and three of the most highly compensated executive officers of U.S. Bancorp, and adds, "Since these benefits are already vested or obligated by contract, the proposal, by its own terms, would not apply to these existing retirement benefits."

**Table 19: Shareholder proposals regarding SERPS in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Meeting Date</b>
American Electric Power	AFL-CIO	April 27
Coca-Cola	AFL-CIO	April 21
Delta Airlines	Longview	Withdrawn
Diebold	Longview	Not in proxy
Raytheon	Teamsters	May 5
U.S. Bancorp	AFL-CIO	April 20
Verizon Communications	BellTel Retirees	April 28
Wal-Mart	AFL-CIO	June 4

## Link pay to social criteria

Increased public attention to executive pay has led shareholder activists who have specialized in social issues to devise resolutions linking the two areas. For 2004, Catholic Funds has submitted a resolution to Alcoa and El Paso asking for a special report from the companies' compensation committees. The proposal is a modification of a resolution that the same group filed in 2003. The report would include a comparison of the compensation packages of top executives and the lowest paid workers; an analysis of changes in the relative size of the gap; an evaluation of whether top executive compensation packages are excessive; and an explanation of whether sizable layoffs of the lowest-paid workers should result in a downward adjustment of executive pay. Christian Brothers and other religiously-affiliated groups have filed the same basic resolution at General Electric, Honeywell, J.P. Morgan Chase and Time Warner.

The International Brotherhood of DuPont Workers has proposed a resolution to E. I. DuPont de Nemours asking the company to report on ways to link compensation more closely to financial and "social corporate performance." The resolution also asks for a comparison of executive pay packages with those provided to the lowest paid domestic and international Dupont employees; whether there should be a pay cap; and whether executive pay "should be adjusted in the event of the layoff of a substantial number of employees."

The issue of predatory lending comes up again in a new proposal from Northstar to American International Group and Wells Fargo asking each to "conduct a special executive compensation review to study ways of linking executive compensation to successfully addressing predatory lending practices."

**Table 20: Shareholder proposals regarding link to Executive Pay in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Proposal</b>	<b>Meeting Date</b>
Alcoa	Catholic Funds	review executive pay	April 30
American International Group	UFE, Northstar	link executive pay to social criteria	May 19
AT&T	CWA	link executive pay to social criteria	May 19
E.I. Dupont de Nemours	IB of Dupont Workers	link executive pay to social criteria	April 28
El Paso	Catholic Funds	review executive pay; consider social link	May 20
General Electric	School Srs./Notre Dame, CBIS	review executive pay	April 28
Honeywell International	Providence Trust, Catholic Funds	review executive pay; consider social link	April 26
International Business Machines	Mangi, J.	review executive compensation	April 27
J.P. Morgan Chase	Oblates Mary Immac.	review executive pay; consider social link	May 2004
Merck	Human Life Internatl.	link executive pay to social criteria	April 27
Time Warner	CBIS, Calvert	review executive pay; consider social link	May 21
Wells Fargo	Northstar	link executive pay to social criteria	April 27

## Disclose Executive Compensation

Evelyn Davis has filed her standard resolutions on disclosing executive compensation again this year. The proposal, general asks companies to list the names and titles of all executives who receive compensation over a particular threshold, generally \$500,000, was filed this year at Consolidated Edison, FleetBoston Financial, Ford Motor and United Technologies.

## Other Executive Compensation Proposals

A new proposal this year asks corporate boards to report on the race and gender of their companies' stock option recipients in 2003, along with any recent trends in stock option distribution to women and employees of color. The proponents emphasize the importance of knowing "how the wealth created by the company is being shared with those who helped create it." The proposals were filed by Responsible Wealth, a project of United for a Fair Economy, a national non-profit organization working to address economic inequity both legislatively and through shareholder activism.

The preamble to the resolution says that while race and sex discrimination lawsuits historically have "rested largely on the payment of salaries and bonuses,...in the future, employees will look more closely at corporate wealth distributed in the form of stock options." The resolution notes that stock options have allowed employees to share in tens of billions of dollars of wealth. The proponents also note that the "highest levels of executive pay go almost exclusively to white men," and that corporate pay practices have contributed to the widening racial wealth gap in America.

Coca-Cola and Verizon both unsuccessfully sought to omit this proposal. Coca-Cola failed to persuade the SEC the proposal was moot and Verizon that it involved ordinary business decisions.

Dominion Resources sought to exclude the binding proposal filed by a fund associated with the Utility Workers Union that seeks to amend the company's bylaws to prohibit any officer from receiving annual compensation in excess of the limits established by the U.S. Internal Revenue Code for deductibility of employee remuneration, without approval by a vote of the majority of the shareholders within one year preceding the payment of such compensation. The proposal stipulates that the corporation may exclude compensation that qualifies either as performance-based compensation or as an incentive stock option within the definition of the Internal Revenue Code, but only if it first discloses to shareholders the specific performance goals and standards adopted for any performance-based compensation plan and whether the corporation expenses its stock options. The new bylaw amendment also would state, "This article may not be altered, amended, or repealed by the directors."

The IRS code provides that publicly held corporations generally may not deduct more than \$1 million in annual compensation for any of the company's five highest-paid executives, with exceptions for certain types of performance-based compensation. The proponent notes that Dominion Resources "reserves the right to approve, and in some cases has approved, non-deductible compensation if the [compensation] committee believes it is in the company's best interests." The proponents counter, "We believe the best way to determine the 'best interests' of the company is to ask the shareholders."

The company challenged the proposal on the grounds that it was an improper subject for a shareholder resolution, that it was false and misleading and that the board lacked the authority to implement the proposal. The SEC's Division of Corporation Finance ruled that the proposal should not be excluded on any of these grounds.

Finally, in an unusual executive compensation proposal, Communication Workers of America (CWA) is asking Verizon to adopt a policy that would "prohibit stock awards or restricted stock in any tracking stock or separately traded public company that may be created on the basis of assets that are owned in whole or in part by Verizon." The proponents are concerned that Verizon's wireless business may be spun off and that this may result in additional stock awards for executives who they believe are already well compensated. The proponents contend that if the executives have minimal responsibility over a potentially separate wireless business the additional compensation would be unwarranted; and if they do have responsibilities the tracking stock would only serve to increase potential conflicts of interest between the two parts of the company.

Only two companies received proposals this year asking companies to stop using pension fund surplus earnings to generate executive bonuses (AT&T and IBM).

**Table 21: Other Shareholder proposals on Executive Pay in 2004:**

<b>Company</b>	<b>Proponent</b>	<b>Proposal</b>	<b>Meeting Date</b>
AT&T	Morse, M.	discontinue executive bonuses	Omitted: b-2
AT&T	Domini	pension fund surplus reporting	Withdrawn
Coca-Cola	UFE/Resp. Wealth, Northstar	report on stock options by race/sex	April 21
Dominion Resources	Utility Workers	restrict executive compensation	April 23
Exxon Mobil	Morse, R.	restrict executive compensation	May 26
Exxon Mobil	UFE/Resp. Wealth	report on stock options by race/sex	May 26
Intl. Bus. Machines	Parry, D.	pension fund surplus reporting	April 27
Intl. Bus. Machines	Foster, E.	restrict executive compensation	omitted: b-2
International Paper	Harris, T.	restrict executive/director compensation	Not available
Lucent Technologies	Moore, R.	restrict executive compensation	omitted: I-7
Otter Tail	Olson, D.	restrict executive compensation	omitted: I-3
Tyco International	Hall, R.	Increase pension benefits	omitted
Verizon Comm.	CWA	restrict executive compensation	April 28
Verizon Comm.	Northstar	report on stock options by race/sex	April 28
Wal-Mart	Northstar	report on stock options by race/sex	June 4

## Employee compensation and pensions

As noted in the discussion of 2003 proposals, an apparent reversal of an SEC decision some years ago seemed to create new possibilities for shareholder proposals. A proposal seeking pension choice has been filed at IBM each year since 2000, and was filed again for 2004. The SEC has also shown a determination not to broaden the sorts of pension proposals that can appear on proxies. For 2004, three companies have received permission to omit such proposals because they relate to the company's ordinary business.

**Table 22: Employee compensation and pension shareholder proposals in 2004:**

<b>Company</b>	<b>Resolution</b>	<b>Proponent</b>	<b>Meeting Date</b>
Boeing	provide pension choices	Shuper, D. & G.	May 3
Deere	increase pension benefits	Buhr, M.	omitted
General Motors	amend pension plan	Hartnagel	omitted
International Business Machines	provide pension choices	Leas, J.	April 27
Tyco International	increase pension benefits	Hall, R.	omitted

## III. BUILDING PROXY VOTING GUIDELINES

### Overview

Shareholder proposals on executive compensation vary widely, so it may be challenging for proxy voters to develop voting guidelines that address each issue. Before considering the specifics of the resolutions, some proxy voters evaluate past company performance. Some automatically oppose resolutions filed at high-performing companies, while those filed at poorly performing firms may be analyzed on a case-by-case basis or automatically supported. This strategy is based on the view that executive compensation should not be an issue at high-performing companies.

Other investors consider a company's past pay practices. Strategies for shareholder resolutions filed at firms where compensation has been deemed "excessive" could include withholding votes for compensation committee members or supporting shareholder resolutions. A variety of surveys—including those published by Forbes, Business Week, and The Wall Street Journal, as well as IRRRC's annual study of CEO pay—may be used to analyze and compare CEO compensation.

A study by Randall S. Thomas and Kenneth J. Martin titled "The Effect of Shareholder Proposals on Executive Compensation" (University of Cincinnati Law Review, Summer 1999) sheds some light on the types of companies targeted with executive compensation shareholder proposals and the effectiveness of a proposal as a monitoring tool for executive compensation. Thomas and Martin found that shareholders generally target poorly performing companies that exhibit higher levels of pay than other similarly sized firms in their industry. They said that shareholders should not attempt to micromanage executive compensation decisions, but rather address particular abuses in the pay process. Since the cost of shareholder proposals is relatively low compared to other monitoring techniques, these proposals can point out compensation abuses, even when the proposals do not receive a strong support. Thomas and Martin concluded that CEO compensation is revised significantly in the year following an executive compensation shareholder proposal.

Some general questions to consider when assessing general compensation issues include the following:

- Should corporate performance be considered when voting on compensation proposals?
- How closely should executive pay be correlated to corporate performance?
- Should a company's past executive pay be considered when voting on compensation proposals?
- What compensation components should be considered in calculating total executive pay: salary; bonuses; payouts under performance plans; contingent awards (stock options, restricted stock and performance awards)?

- Should a company’s executive pay be compared with industry averages when deciding how to vote on shareholder-sponsored compensation proposals?
- Should a company’s past grants of large stock awards to its employees be considered when voting on compensation proposals?
- Would voting for a pay-related shareholder resolution help “send a message” to a company where you feel pay is excessive, even if you don’t agree with all the specifics of the proposal?
- Are there other ways of communicating dissatisfaction over executive pay--such as writing a letter to the compensation committee or withholding votes from the board or compensation committee members--that may be more effective than supporting shareholder proposals?

The discussion below addresses voting guideline issues for specific aspects of executive pay related proposals.

## **Restrict executive compensation**

Shareholder proposals aimed at restricting executive pay take many forms. Some proposals recommend linking pay to financial performance as well as to environmental and social issues, and ask for reporting on social issues, including employee relations or reductions in teen smoking. Others ask the board to abolish the short- and long-term incentive plans. A number have called for tying executive compensation to a certain performance hurdle. Others call on boards to adopt policies to prohibit repricing of underwater options.

## **No repricing of underwater options**

Proposals seeking to prohibit repricing are not new. In 1992, Emil Rossi asked Chrysler’s board to amend the company’s governing instruments to require that “the strike price of all option plans shall remain permanent. During the term of the option the strike price will not be lowered to the current market price.” In 1995, the State of Wisconsin Investment Board (SWIB) filed resolutions asking the boards of Octel Communications and Structural Dynamics Research to refrain from repricing underwater options. Several shareholder activists, including SWIB and the Teamsters, targeted repricing for the 1999 proxy season. The companies targeted generally had high levels of potential dilution and had repriced options in the previous fiscal year. SWIB approached 15 companies in that year, asking them to refrain from future stock option repricing and reached agreements with five of the companies. At the remaining 10 companies, SWIB filed binding shareholder resolutions to prohibit future repricing without prior shareholder approval and received an average support of 30.7 percent of the votes cast at the three meetings where the proposal came to a vote.

**Pros and cons:** Many shareholders oppose the practice of adjusting underwater options. They say replacing underwater options is a giveaway to executives, and that the shareholders have no such protection from a falling stock price. Critics maintain that, by taking away the downside risk of options, the company sends executives a message that they will be compensated even if the stock price falls, which some observers may interpret as a lack of managerial confidence in the stock and may further depress the stock price. These shareholders say boards and compensation committees should be willing to promise not to adjust underwater awards.

Supporters of repricing say that options cannot provide their original incentive for boosting company performance if they are underwater and there is little to no chance of their rising above water during the remaining option life. This argument is strengthened when the drop in stock price is industry-wide or market-wide. Even some of the most vocal critics are swayed by an argument that the options are underwater not because of bad management, but because of an industry-wide slump.

**Issues to consider:** For resolutions to bar the repricing of underwater options, answering the following questions will help to develop voting guidelines:

- Should the compensation committee have full discretion on all pay issues, including the repricing or replacing of underwater options?
- Has the company adjusted underwater options in the past?
- Should a company have discretion to adjust underwater options if the stock price performance has resulted from conditions beyond management’s control?

- Should companies with less volatile stocks be given more discretion to adjust underwater options than firms with more volatile prices?
- Would a policy prohibiting the repricing or replacing of underwater options put a company at a competitive disadvantage in attracting, retaining and motivating personnel relative to its industry peers?

## Tying pay to performance

Although the media has focused largely on the relative dollar amounts of corporate pay, most institutional investors have expressed interest mainly in ensuring that executive pay levels are linked to corporate performance. A survey conducted by the proxy solicitation firm Georgeson Shareholder Communications, for example, found that nearly 70 percent of the 56 responding institutional investors surveyed favored performance-based limits on compensation, and nearly 80 percent said pay should decline if performance stumbles. According to a 1995 study by Russell Reynolds Associates and the Wirthlin Group, 97 percent of investment institutions and fund managers surveyed were in favor of linking CEO pay to performance, where performance means a higher stock price.

Executives also say they favor pay for performance. A Coopers & Lybrand survey found that more than 75 percent of 500 CEOs and 500 board members at the nations largest companies said executive pay should be linked more closely to performance.

Despite the apparent agreement over the concept of pay for performance, there is widespread debate whether in reality executive pay is linked to corporate performance. Compensation consultant Graef Crystal studied the total direct compensation, or “TDC,” of 305 CEOs, all of whom had held their positions since at least the beginning of 1992. Crystal defined TDC as base salary plus annual bonus plus the value of restricted stock granted, payouts during the year under performance share and performance unit plans, the estimated present value of stock option grants and all other compensation. In 1992, 20 percent of the variation of TDC levels could be accounted for by differences in company size and 5 percent by differences in shareholder return performance. In 1995, 18 percent of the variations in TDC levels were explained by company size differences, while the variation attributable to company performance was 13 percent. Crystal says the percentage dependent on performance should be much higher, around 50 percent.

**Measuring pay for performance:** Given the disagreements among compensation experts, it is not surprising that most shareholders do not have a set definition of “pay for performance.” Since incentive requirements vary by company, there is probably no simple guideline for how to vote on proposals aimed at tying pay to performance. To attempt to develop a framework for evaluating pay for performance, benchmarks are needed to measure and monitor pay for performance and establish criteria that will align management and shareholder interests.

Some experts suggest back-of-the-envelope techniques. According to Crystal, “the greater the base salary expressed as a percentage of the total pay package, the less will be the pay risk in that package and the less will be the pay-for-performance sensitivity of that package.”

Others suggest using the executive pay and corporate performance statistics that are available in annual compensation surveys produced by national business publications. Some experts caution that industry factors should be considered before evaluating pay-for-performance. *Business Week* provides industry rankings of executive pay during the last three years relative to average total return and average return on equity (net income divided by shareholders’ equity).

The SEC’s amended proxy statement disclosure rules also help many shareholders assess the linkage between pay and long-term stock performance. Companies must include in their proxy statements a graph comparing the five-year total stock returns to the S&P 500 index and an industry composite, making it easier for proxy voters to track corporate performance. The rules should allow shareholders to evaluate pay for performance in the following ways:

- Separate cash salary and annual bonus amounts enable shareholders to determine how much of an executive’s total pay is tied to performance and whether the bonus changes with corporate performance.
- The compensation committee’s specific discussion of the CEO’s pay package and the general discussion of its pay philosophy for the other top four named executive officers help shareholders assess the rationale underlying any pay increases.

- The graph disclosing the company's stock returns relative to its peers and the S&P 500 index helps proxy voters evaluate the linkage between executive pay and long-term returns to investors.
- Disclosure of the performance criteria under which long-term incentive awards are earned allows shareholders to evaluate whether or not performance goals are appropriate.
- Disclosure of various aspects of executive stock ownership, such as the number of unexercised options held and the net value of in-the-money awards, may help shareholders assess how much of an executive's wealth is directly tied to stock performance and whether the amount is appropriate.
- Soliciting shareholder approval of annual and long-term cash bonus plans is now required to exempt any payouts under Section 162(m) of the tax code, which limits the deductibility of compensation paid to each of the top five executives to \$1 million. As a result, when voting on proposed cash bonus plans, shareholders may assess the appropriateness of financial performance goals and the maximum awards that may be delivered to executives under the plan.

**Views on tying pay to performance:** Compensation experts offer various recommendations for linking pay to performance. Although the specifics differ, one factor is consistent: Creating compensation packages that effectively tie pay to performance depends on unique company considerations.

In a 1996 special report on executive compensation by the National Association of Corporate Directors, authors Paul W. MacAvoy and Ira M. Millstein acknowledged that paying executives in stock creates an incentive system that rewards actions that may improve the long-term prospects of the company. However, they also point out that increases in stock prices do not exclusively reflect improvements in company performance, so that the "potential for high variance in stock prices around expected returns from company performance may yield results involving windfall gains" for top executives. Millstein and MacAvoy suggested the ideal compensation scheme is an indexed stock option plan that factors out both the bull and bear sides of the market. Under such a plan, executives would be rewarded depending on changes in their company's share price only when changes exceeded changes in a market or industry stock price index.

One shareholder spent 1997 promoting the idea of indexed stock option plans. Dr. Paul J. Sheehan targeted no fewer than 21 companies with a proposal to adopt an indexed stock option plan. His resolution sought to peg option exercise prices to the consumer price index. All future options under Sheehan's proposal would be granted at fair market value, with the exercise price indexed for inflation from the grant date to the exercise date, using the Consumer Price Index. Companies have largely resisted implementing indexed option plans, however, because the variable earnings charges associated with them (under current accounting rules) discourage their use.

*Financial World* says that "while incentive, or 'pay-for-performance,' is all the rage with compensation consultants and shareholders today, the fact is that not all businesses should heavily tie executive compensation to share-price appreciation." This sentiment is supported by the authors of some empirical studies who claim that linking pay to stock performance can actually hurt shareholders by encouraging short-term thinking and manipulative record-keeping. For example, several studies conclude that linking pay to a company's stock price has led to cuts in spending on research and development, which do not deliver short-term profits.

In his book *Creating Shareholder Value*, Alfred Rappaport lists three primary limitations of tying executive pay to market returns. "First, movements in a company's market price may be influenced by many factors beyond management control, such as the overall state of the economy and stock market. Second, market returns may be materially influenced by what management believes to be unduly optimistic or pessimistic expectations at the beginning or end of the performance measurement period. And third, divisional business unit performance cannot be directly linked to stock price." The same limitation applies to private companies, according to Rappaport.

Towers Perrin compensation analyst Robert C. Greenberg told an IRRC proxy season roundtable that "investors should encourage companies to adopt fundamentally better programs and practices that guarantee a strong link between pay and performance." He outlined the following recommendations for eliminating obstacles to pay-for-performance schemes:

- Set fixed financial targets rather than resetting goals each year.
- Base performance targets on external standards rather than company budgets.

- Award front-loaded option and restricted share grants rather than annual awards (i.e., grant more shares, less frequently).
- Use indexing, peer group comparisons, and relative performance measures to erase the impact of market and industry factors or corporate performance.

In a report prepared for the California Public Employees' Retirement System, compensation expert Graef Crystal identified 15 "danger signals" that a company's executive pay may be out of control (see box above). Crystal warned, "a package that contains little volatility, or risk, cannot at the same time be a package that incorporates pay-for-performance principles and that is engineered with a view towards maximizing shareholder value."

**Graef Crystal's 15 'danger signals' that executive pay may be heading out of control**

- 1) An ultra-high total package value compared with that offered by other companies, after taking into account considerations of company size and performance.
- 2) An outsized base salary.
- 3) An annual bonus that is guaranteed or, if not guaranteed, is relatively insensitive to performance or, worst of all, is sensitive to performance when performance is good, but insensitive to performance when performance is bad.
- 4) The presence of more than one long-term incentive arrangement.
- 5) The presence of restricted stock.
- 6) Option swaps.
- 7) Ultra-liberal stock option exercise restrictions.
- 8) Mega-grants of stock options.
- 9) The presence of reload stock options, unless the conditions governing the reload are severely restricted.
- 10) The use of tandem grant arrangements, involving combinations of stock options and performance unites or stock options and restricted shares.
- 11) The presence of performance share or performance unit plan targets that are too easy to accomplish.
- 12) Guarantees of minimum payouts from long-term incentive plan.
- 13) Reimbursement or gross-up of taxes on long-term incentive plans.
- 14) An ultra-liberal perquisite package.
- 15) pension that predicates benefits not only on base salary and annual bonus, but on long-term incentive payments as well.

Others believe that the key is encouraging ownership. Professors Michael Jensen and Kevin Murphy, in their study "CEO Incentives – It's Not How Much You Pay, But How" (Harvard Business Review, May/June 1990), claimed that the most powerful link between shareholder wealth and executive wealth is direct stock ownership by the CEO. Jensen and Murphy concluded that "what really matters is the percentage of the company's outstanding shares the CEO owns. By controlling a meaningful percentage of total corporate equity, senior managers experience a direct and powerful 'feedback effect' from changes in market value."

Carol O'Cleireacain, former New York City finance commissioner, recommended in a 1992 article "Zero-Based Compensation Design from the Institutional Investors Point of View" that executive compensation packages be designed to relate pay to productivity. A zero-based compensation design ensures that "payroll costs are minimized and productivity maximized," she said.

Recently, the very method of calculating performance has come under scrutiny. Accounting rules allow companies to add their pension funds' surpluses, which cannot be used for corporate purposes, to reported profits. Critics of this procedure call the pension fund surplus "vapor profits". Executive compensation plans often do not distinguish between vapor profits and profits from the company's operations, lumping the two together when calculating performance-based compensation payouts or awards. Critics charge that by using vapor profit in compensation calculations, companies unfairly boost payouts and awards. In addition, some critics charge that companies have been converting from traditional defined-benefit pension plans to cash-balance pension plans and cutting pension obligations in order to increase vapor profits to the detriment of retirees and older employees.

**Issues to consider:** Because no two compensation plans are exactly alike, and no two boards administer their plans identically, simple guidelines for voting on proposals aimed at tying pay to performance cannot be established. Questions to consider, however, when voting on such proposals and stock plans in general include the following: Is the company's entire compensation program structured fairly?

- Do the incentive plans align shareholder and executive interests through appropriate use of stock-based incentives?
- Are the plans structured to maximize long-term shareholder wealth?
- Do the plans balance long-term and short-term incentives or are they too weighted toward shorter or longer time horizons?
- Are the performance goals disclosed in the proxy statement and, if so, are they too easily attained?
- Are the performance goals in line with shareholder interests?
- Do existing compensation packages include features that may lessen the incentive nature of the plans (e.g., “pay for failure” severance provisions)?
- Can stock options be priced at less than fair market value?
- Does the compensation committee have authority to reprice or replace underwater options?
- Do the plans authorize too many “give-away” features, such as restricted stock awards, reload options, discount stock options, repriced or replaced underwater options?
- Are the plans structured to encourage long-term ownership of a meaningful stake in the company (e.g., by requiring significant vesting periods before awards are earned)?
- How has executive pay compared with corporate performance during the last one, three, or five years?
- Do you agree with the rationale underlying the compensation committee’s pay decisions?
- Has the company paid its executives excessively relative to corporate performance, industry peers or other yardsticks?

## **Report on executive pay/social factors**

For the first time in 1992, church groups began submitting proposals asking boards to study and report to shareholders on executive pay, including ways to link pay to social and environmental performance, and on a comparison of top officer pay to the lowest and average wage for the company’s U.S. employees. The Sisters of the Blessed Sacrament submitted the first proposal to Proctor & Gamble in the fall of 1992. Since then, a handful of these proposals have been voted on each year, increasing to an aggregate of 20 proposals in 1997, 26 proposals in 1998, 17 proposals in 1999 and 20 proposals in 2000.

These proposals are unique for several reasons. They request a report rather than specific action regarding executive pay and, although they address a corporate governance issue, they focus on various social aspects of executive compensation. The resolutions ask boards to report on ways to link pay not only to financial criteria but also to “environmental and social corporate performance” and ways to link the “financial viability of the company to long-term environmental and social sustainability.” When the Interfaith Center on Corporate Responsibility (ICCR) started its campaign, then executive director Timothy Smith told IRRC that he was not aware of any U.S. companies currently providing this type of report or linking pay to social performance.

Although these proposals were new, the ICCR’s approach was not. Church groups often submit resolutions calling for reports during the first year of a social policy issue campaign, according to Smith. This technique, he said, puts management on alert that the issue is important to church groups. Also, he said, many church groups prefer reporting proposals to action-oriented proposals, which may be considered more confrontational. Churches have frequently used these proposals as entreaties to discuss the issues with senior corporate executives.

The church groups’ decision to file these hybrid corporate governance proposals also may have been in response to a perceived desire of the SEC to restrict the number of shareholder proposals on social policy issues in the future.

According to a 1996 study by Shelley Taylor & Associates, a Palo Alto, Calif. consulting firm, few social and environmental reporting issues are considered very important to investors. On the other hand, the majority of investors felt that these issues are at least somewhat important after taking into consideration other operational and financial information. The study analyzed the information requirements of 62 of the world’s top investors and compared those requirements with the disclosure practices of 200 multinational companies. The study found that the industries with the most disclosure of social information were auto, retail and utilities. Computer and electronics companies had the lowest disclosure rates when it came to social issues reporting.

**Pros and cons:** Some companies have voluntarily responded to the proposal. Proctor & Gamble made headlines in 1994 when it released a summary of its executive compensation philosophy. It describes the company's compensation committee and its philosophy and explained that managers are evaluated on financial performance as well as "building the organization... including advancement of minorities" and "maximizing the environmental quality of P&G products and operations." In 1995, Eastman Kodak adopted a performance plan that links executive pay to measures of employee satisfaction and public responsibility.

The church groups' resolution argues that top executives are overpaid, especially relative to average employees in the United States and in other countries. They say that linking executive pay to social performance is warranted for a number of reasons: "Should...Exxon's CEO, be paid on a business-as-usual scale in the year of the Valdez disaster?" asked one proponent. "Should a CEO's pay for a given year be reduced if the company is found guilty of systematic sex or race discrimination or poor environmental performance, especially if it results in costly fines?"

The primary purpose of this type of proposal is to encourage companies to think about how executive pay fits in the context of social performance, according to Smith. He said the proposals would serve as a "gentle nudge" to companies and shareholders to undertake a broader, more comprehensive approach to pay packages. This concept is not unprecedented, he said; General Electric takes into consideration equal employment practices and minority hiring in determining management bonuses.

Companies generally respond that the additional review would be redundant, because their compensation committees already review pay policies and levels.

**Issues to consider:** Questions to consider when formulating voting policies or decisions on shareholder proposals calling for a report on executive pay with respect to social factors are:

- In light of heightened proxy disclosure requirements for executive compensation, will an additional compensation report be of value to shareholders?
- Should pay be tied to a variety of performance considerations, including financial and "social" consideration?
- If so, how should social and environmental performance be measured? Should it include a comparison with industry peers? Should "social" performance be weighed relative to company size?
- Are certain social considerations, equal opportunity employment, for example, more relevant than others?
- What is the appropriate approach for linking executive compensation to the range of social considerations?
- Is social performance already reflected in a company's stock performance?
- Is it meaningful to know the ratio of executive pay to the company's average U.S. worker and international worker pay?
- What is the appropriate ratio of executive to average worker pay?

## Expanded disclosure of executive compensation

Evelyn Y. Davis' proposals asking companies to list the names and titles of all executives who receive compensation in excess of a particular figure a year have generally met with limited support. IRRC voting surveys have indicated that many institutional investors believe a lengthy list of executive salaries is not particularly meaningful.

Shareholder proposals calling for enhanced disclosure of compensation are not new. Although the SEC traditionally allowed companies to omit from their proxy statement most pay-related shareholder proposals as "ordinary business" matters, it generally allowed calling for disclosure. Due to some shareholders' concerns, the SEC is considering revising the current disclosure rules.

**Pros and cons:** At the heart of these proposals lies shareholder criticism of past disclosure requirements. Many shareholders had long complained that the complexity and variety of incentive plans and widely differing disclosure practices has made it difficult to determine how and how much executives are paid. Since shareholders ultimately foot the bill for executive pay packages, activists said the proxy statement disclosure should allow shareholders to track trends in pay and compare pay packages across companies.

Some shareholders may consider these proposals redundant in light of the SEC changes in the disclosure requirements for executive compensation. Adopted in 1992, the new rules were designed to “create clear and comprehensible disclosure concerning the executive compensation practices of America’s public corporations,” according to former SEC Chairman Richard Breeden. However, the proxy statement disclosure only pertains to the five highest paid executives. Davis wants detailed disclosure of all executives who are paid more than over particular thresholds.

Companies facing disclosure-related shareholder proposals generally have argued that the additional disclosure would provide no new meaningful information to shareholders and would put the companies at a competitive disadvantage. Most said their compensation disclosure complied with – or in a few cases, exceeded – the SEC’s requirements.

Issues to consider: The following questions may be useful in developing voting guidelines for pay disclosure resolutions:

- What is the quality of the company’s current disclosure?
- Is the quantity (the number of executives) of disclosure important?
- Can shareholders easily understand how much and how executives are paid?
- Can shareholders understand the rationale for pay decisions?
- What enhancements, if any, should be made to the current disclosure?
- Would disclosing more about executive pay put the company at a competitive disadvantage in attracting and retaining personnel relative to its industry peers?
- Is pressure for enhanced disclosure an effective way to get companies with “excessive” pay packages to modify them to avoid shareholder and press criticism?

## Cap or limit executive pay

IRRC has tracked a variety of proposals seeking to cap total executive pay via a yardstick, such as a multiple of the U.S. president’s salary or an average worker’s pay. The concept of capping executive pay at some multiple of average worker pay or another yardstick, while uncommon, is not unheard of in the business community. For example, Whole Foods Market, reported in its 2001 proxy statement that it has in place a cash compensation cap for each executive officer and regional president of 14 times the average full-time salary of its workers. That represents an increase from the 10 times cap reported in the company’s 1999 proxy statement, however.

Another example of this approach is Herman Miller, a Michigan-based office furniture maker, limited CEO cash compensation (salary plus bonus) to 20 times the average paycheck from 1984, until it revised its compensation strategy in 1997. Option awards were not included in the calculation. Max DePree, a member of the company’s founding family and currently its chairman, told *The Wall Street Journal* he got the idea from his friend, management guru Peter Drucker. DePree said, “people have to think about the common good. Our CEO and senior officers make good competitive salaries when the performance is there.” Herman Miller’s retired CEO Richard Rush told the *Journal*, “the way the CEO gets more compensation is if he can raise the average workers up. From a fairness standpoint, it seems like a good idea.” Herman Miller changed its compensation strategy in 1997, in an attempt to tie executive pay more closely with the creation of shareholder wealth. Similarly, Ben and Jerry’s Homemade replaced its notable seven-to-one pay ratio of highest to lowest compensated employees when it hired a new CEO in January, 1995, stating “the ratio had become a barrier to recruiting experienced people”.

**Pros and cons:** Proponents of capping executive pay at some multiple of worker pay usually point to the growing gap between executive and worker pay and the perceived imbalance between the U.S. executive-to-worker pay ratio and those in other countries.

The results of a study conducted by William M. Mercer for *The Wall Street Journal* were published in the newspaper’s April 6, 2000 special “Executive Pay” edition. After reviewing proxy statements from 350 of the largest U.S. companies, Mercer found that salaries and bonuses of the surveyed CEOs trailed the sizable 11.7 percent jump they had made in 1997, but matched the prior year’s 5.2 percent increase. A large number of chief executives (143, down from 160 in 1998, 179 in 1997, and 166 in 1996) reported cashing in their stock options in 1999, for a median gain of \$2.85 million. This broke 1998’s record of \$2.77 million and was substantially higher

than the \$1.8 million and \$1.2 million levels recorded in 1997 and 1996, respectively. Among other findings, the survey reported that median total compensation, including salary, bonuses, gains from the exercise of stock options, long-term incentive payouts, and the value of restricted stock awarded grew 10.8 percent, to \$2.8 million in 1999.

In his book, *In Search of Excess: The Overcompensation of American Executives*, Graef Crystal writes: “These huge gaps at home between the pay of CEO and the pay of a worker might be less reprehensible if the same huge gaps could be demonstrated in our major competitors--Japan, Germany, France and the United Kingdom... (but) in contrast to the 160 times by which the pay of an American CEO exceeds the pay of an American worker, the corresponding differential in Japan is under 20; and in the U.K., it is under 35.” In his now defunct Crystal Report, Crystal wrote, “. . . we are certainly not arguing that everyone should be paid the same. But we do worry when the gap between top and bottom in our society widens to the degree it has. For in that widening lies the ultimate destruction of the middle class and an increasing polarization of our society. And history teaches, if it teaches anything, that a society cannot remain democratic and stable if it has no, or a miniscule, middle class.”

Others refute Crystal’s numbers, however. According to a Hay Group study, “Exposing the CEO Pay Multiple Myth,” U.S. CEOs’ pay is “right in line with the international average and virtually indistinguishable from Japan’s.” Consulting firm Towers Perrin acknowledged in a study by analyst Robert C. Greenberg that, in absolute terms, CEOs in the United States are paid more than in any other nation. The study also noted, however, that U.S. CEOs have the highest percentage of compensation at risk.

Proponents of pay cap resolutions argue that the money saved could be better used for other corporate purposes, including research, development and equipment modernization. Skeptics say the limits are divorced from market realities. Imposition of CEO pay caps would result in companies being stuck with mediocre managers and being raided for employees by higher-paying competitors, according to cap critics. Certainly, most companies contend that the proposals would hamper their ability to attract and retain top-quality executives.

**Issues to consider:** The questions below will help proxy voters develop an overall framework for guidelines on pay cap proposals:

- Should the board of directors have full discretion to design compensation packages and set executive salaries and bonuses?
- Should shareholders set specific pay limits?
- Should shareholders be more concerned with setting absolute levels of pay or ensuring that pay is tied to performance?
- Would capping executive compensation negatively affect a company’s ability to attract, retain and motivate quality managers?
- Is it appropriate to limit executive pay to a multiple of the company’s average worker’s pay or to some other yardstick?
- Would capping pay solve the perceived problems with excessive executive pay?

## KEY TO SHAREHOLDER PROPONENTS AND COORDINATORS

AFL-CIO	American Federation of Labor – Congress of Industrial Organizations
AFSCME	American Federation of State, County and Municipal Employees
Calpers	California Public Employees’ Retirement System
CBIS	Christian Brother Investment Service
CREF	College Retirement Equities Fund
CWA	Communications Workers of America
Gilberts	John J. Gilbert and associates
IAPE	Independent Association of Publishers Employees
IBEW	International Brotherhood of Electrical Workers
ICCR	Interfaith Center on Corporate Responsibility
HERE	Hotel Employees & Restaurant Employees International Union
Laborers	Laborers’ International Union of North America
LongView Fund	LongView Collective Investment Fund
Nycers	New York City Employees’ Retirement System
OCAW	Oil, Chemical & Atomic Workers International Union

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
Abbott Laboratories	restrict executive compensation	Friedman, R.	6.5%
Adobe Systems	require option shares to be held	AFSCME	8.9 %
Airborne	award performance-based stock options	Boyd, R.	25.1%
Airborne	expense option value at time of grant	Graves, D.	45.8%
Alaska Air Group	report on employee stock ownership	Robinson, A.	51.0%
Albertson's	expense option value at time of grant	IBEW	51.2%
Alcoa	review pay disparity	Catholic Funds	8.8%
Allegheny Energy	award performance-based stock options	Moser, J.	21.3%
Allegheny Energy	expense option value at time of grant	Sheet Metal Workers	41.3%
Allete	COLA for pensions	Johnson, J.	Omitted: l-7
Allied Waste Industries	award performance-based stock options	UBCJA	11.0%
Allied Waste Industries	expense option value at time of grant	Sheet Metal Workers	41.8%
Allmerica Financial	expense option value at time of grant	UBCJA	34.5%
American Electric Power	award performance-based stock options	Plumbers, Pipefitters	16.3%
American Electric Power	expense option value at time of grant	IBEW	Omitted: b-2
American Express	abolish stock options	AFL-CIO	4.6%
American Express	award performance-based stock options	Breuel, D.	3.4%
American Financial Group (OH)	expense option value at time of grant	UBCJA	20.7%
American International Group	get consent of insured employee	AFL-CIO	Withdrawn
Amgen	abolish stock options	AFL-CIO	Not presented
AmSouth Bancorporation	Terminate restricted stock program	Shepherd, E.	13.3%
AmSouth Bancorporation	restrict executive compensation	Shepherd, E.	13.3%
Analog Devices	expense option value at time of grant	UBCJA	37.8%
AOL Time Warner	abolish stock options	AFL-CIO	Omitted: l-9
AOL Time Warner	prohibit stock options to executives	Scumas, C.	Omitted: d
AOL Time Warner	review executive compensation	ICCR	7.3%
Apple Computer	expense option value at time of grant	UBCJA	56.4% (p)
Archstone-Smith Trust	expense option value at time of grant	UBCJA	withdrawn
AT&T	cap executive pay	Kuklo, J.	Omitted: b-2
AT&T	provide pension choices	Domini	8.6%
AT&T Wireless Services	award performance-based stock options	Laborers	9.9%
AutoDesk	Add restrictions to incentive compensation plans	TIAA-CREF	withdrawn
AvalonBay Communities	expense option value at time of grant	UBCJA	Omitted: l-10
Avon Products	award performance-based stock options	Laborers	8.5%
Avon Products	expense option value at time of grant	IBEW	56.4%(p)
Baker Hughes	abolish stock options	AFL-CIO	3.1%
Bank Of America	award performance-based stock options	Laborers	Withdrawn
Bank One	approve extra benefits under SERPs	AFL-CIO	Withdrawn
Baxter International	abolish stock options	AFL-CIO	Omitted: l-9
Bear Stearns	award performance-based stock options	Laborers	Withdrawn
Bear Stearns	expense option value at time of grant	UBCJA	Withdrawn
BellSouth	award performance-based stock options	Sheet Metal Workers	24.0%
BellSouth	expense option value at time of grant	UBCJA	Withdrawn
Black & Decker	expense option value at time of grant	UBCJA	52.4 %(p)
Boeing	approve extra benefits under SERPs	Machinists	14.7%
Boeing	award performance-based stock options	Watt, D.	14.4%
Boeing	provide pension choices	Shuper, D. & G.	12.2%
Boston Scientific	award performance-based stock options	Sheet Metal Workers	9.0%
Boston Scientific	expense option value at time of grant	UBCJA	Not in proxy
Bristol-Myers Squibb	review executive compensation	UFE/Resp. Wealth	11.8%

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
Bristol-Myers Squibb	Prohibit discretionary income if threshold isn't met	Schneider, S.	11.8%
Capital One Financial	expense option value at time of grant	UBCJA	68.9 %(p)
CarrAmerica Realty	expense option value at time of grant	UBCJA	Omitted: I-10
Caterpillar	award performance-based stock options	Sheet Metal Workers	withdrawn
Caterpillar	expense option value at time of grant	IBEW	Withdrawn
Cendant	award performance-based stock options	UBCJA	Withdrawn
Cheesecake Factory	Vote on all stock-based compensation	Cullinary Workers	54.6 %(p)
Chevron-Texaco	Negotiate executive compensation reduction	Plumbers, Pipefitters	14.5%
Cincinnati Financial	award performance-based stock options	UBCJA	Withdrawn
Cincinnati Financial	expense option value at time of grant	Laborers	29.1%
Cisco Systems	review executive compensation	CBIS	9.1%
Citigroup	award performance-based stock options	UBCJA	Withdrawn
Citigroup	discontinue executive bonuses	Gavitt, T.	Not presented
Citigroup	link executive pay to reducing predatory lending	UFE/Resp. Wealth	6.8%
Citrix Systems	expense option value at time of grant	Laborers	54.8 %(p)
Coca-Cola	approve extra benefits under SERPs	AFL-CIO	Withdrawn
Coca-Cola	award performance-based stock options	Teamsters	10.1%
Coca-Cola	no restricted stock grants	Shepherd, E.	5.6%
Coca-Cola	review executive compensation	UFE/Resp. Wealth	7.9%
Coca-Cola Enterprises	award performance-based stock options	Teamsters	6.5%
Coca-Cola Enterprises	expense option value at time of grant	UBCJA	27.6%
Colgate-Palmolive	vote on all stock-based compensation plans	Rossi Family	37.3%
ConAgra Foods	Add restrictions to incentive compensation plans	Hudgens, D.	11.1%
Consolidated Edison	disclose executive compensation	Davis, E.	16.5%
Constellation Energy Group	award performance-based stock options	UBCJA	13.5%
Constellation Energy Group	expense option value at time of grant	IBEW	Withdrawn
Convergys	expense option value at time of grant	Laborers	49.1%
Cox Communications	award performance-based stock options	UBCJA	2.4%
Cox Communications	expense option value at time of grant	Sheet Metal Workers	Not in proxy
Cummins	expense option value at time of grant	Sheet Metal Workers	Withdrawn
Delta Air Lines	award performance-based stock options	UBCJA	26.7%
Delta Air Lines	Pension fund surplus reporting	Airline Pilots	30.2%
Dillard's	award performance-based stock options	IBEW	21.5%
Disney (Walt)	award performance-based stock options	CWA	14.5%
Disney (Walt)	cap executive pay	Kuklo, J.	Omitted: b-2
Disney (Walt)	review executive compensation	UFE/Resp. Wealth	14.5%
Donnelley (R.R.) & Sons	expense option value at time of grant	UBCJA	41.1%
Dow Jones	expense option value at time of grant	CWA Member	Not in proxy
DPL	expense option value at time of grant	UBCJA	Withdrawn
Duke Energy	expense option value at time of grant	IBEW	Omitted:b-2
Dynegy	award performance-based stock options	IBEW	12.1%
Eastman Kodak	award performance-based stock options	Plumbers, Pipefitters	10.8%
Eastman Kodak	cap executive pay	Kuklo, J.	Omitted: I-3
Eastman Kodak	expense option value at time of grant	Laborers	56.3 %(p)
Eaton	performance-based compensation system	Collins, J.	Omitted: b-1
Ecolab	expense option value at time of grant	UBCJA	Omitted: b-1
El Paso	award performance-based stock options	Laborers	39.2%
El Paso	review pay disparity	Catholic Funds	24.5%
Electronic Data Systems	expense option value at time of grant	UBCJA	Not in proxy
EMC	award performance-based stock options	Sheet Metal Workers	16.4%
EMC	expense option value at time of grant	UBCJA	Not in proxy

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
EMC	review executive compensation	Catholic Funds	Withdrawn
Entergy	award performance-based stock options	IBEW	Withdrawn
Entergy	establish direct stock purchase plan	Pennino, D.	Omitted: I-7
Entergy	expense option value at time of grant	UBCJA	Withdrawn
Equifax	expense option value at time of grant	UBCJA	60.7% (p)
Equity Office Properties Trust	expense option value at time of grant	UBCJA	Withdrawn
Exelon	approve extra benefits under SERPs	AFL-CIO	Withdrawn
Exxon Mobil	award performance-based stock options	Laborers	Withdrawn
Exxon Mobil	expense option value at time of grant	UBCJA	Withdrawn
FirstEnergy	award performance-based stock options	Plumbers, Pipefitters	16.2%
FirstEnergy	expense option value at time of grant	Sheet Metal Workers	46.6%
FleetBoston Financial	award performance-based stock options	UBCJA	Withdrawn
Fluor	award performance-based stock options	IBEW	Withdrawn
Fluor	expense option value at time of grant	UBCJA	79.7 %(p)
Ford Motor	disclose executive compensation	Davis, E.	10.3%
FPL Group	expense option value at time of grant	UBCJA	Withdrawn
Gannett	amend pension plan	Wehling, R.	Omitted: I-7
Gap	award performance-based stock options	Plumbers, Pipefitters	Omitted: I-7
Gap	expense option value at time of grant	Sheet Metal Workers	36.4%
Gateway	award performance-based stock options	UBCJA	10.1%
Gateway	expense option value at time of grant	Operating Engineers	22.9%
Gateway	require option shares to be held	AFSCME	12.2%
GenCorp	increase pension benefits	Briggs, L.	Omitted: I-7
General Electric	approve extra benefits under SERPs	AFL-CIO	Withdrawn
General Electric	award performance-based stock options	LongView	15.1%
General Electric	award performance-based stock options	Sheet Metal Workers	Withdrawn
General Electric	cap executive pay	Carrington, W.	Omitted: I-3
General Electric	cap executive pay	Newby, E.	Omitted: I-3
General Electric	discontinue executive bonuses	Gavitt, A.	Not in proxy
General Electric	increase pension benefits	Lennox, R.	Omitted: I-7
General Electric	pension fund surplus reporting	CWA	Withdrawn
General Electric	report on retirement agreements	Conn. Retirement Plans	Withdrawal
General Electric	review executive compensation	Srs. Charity/Cincinnati	9.8%
General Electric	review executive compensation	UFE/Resp. Wealth	Omitted: I-11
General Motors	report on pension accounting	Naylor, B.	Omitted: I-7
General Motors	restrict executive compensation	Scumas, C.	Omitted: b-2
Genuine Parts	expense option value at time of grant	UBCJA	Withdrawn
Genzyme (General)	expense option value at time of grant	UBCJA	63.2 %(p)
Georgia-Pacific	expense option value at time of grant	Teamsters	65.0 %(p)
Gillette	award performance-based stock options	Sheet Metal Workers	Withdrawn
Gillette	expense option value at time of grant	UBCJA	41.9%
Goldman Sachs Group	award performance-based stock options	UBCJA	Withdrawn
Great Lakes Chemical	award performance-based stock options	Laborers	26.5%
Halliburton	award performance-based stock options	IBEW	Omitted: b-2
Halliburton	expense option value at time of grant	UBCJA	Omitted: b-2
HCA	Negotiate executive compensation reduction	Plumbers, Pipefitters	5.6%
Hershey Foods	expense option value at time of grant	UBCJA	9.3%
Hewlett-Packard	award performance-based stock options	Plumbers, Pipefitters	13.4%
Hewlett-Packard	expense option value at time of grant	Laborers	45.2%
Hewlett-Packard	restrict executive compensation	Scumas, C.	Omitted: b-2
Hilton Hotels	disclose executive compensation	HERE	Omitted: I-7

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
Home Depot	award performance-based stock options	UBCJA	Not in proxy
Honeywell International	review executive compensation	Providence Trust	13.8%
Household International	link executive pay to reducing predatory lending	Northstar	Mtg cancelled
Intel	award performance-based stock options	IBEW	Withdrawn
Intel	expense option value at time of grant	UBCJA	49.5%
Intel	restrict executive compensation	Scumas, C.	Omitted: b-2
Intel	vote on all stock-based compensation plans	Rossi Family	Omitted: I-10
International Business Machines	award performance-based stock options	Laborers	Withdrawn
International Business Machines	disclose executive compensation	Krueger, J.	Omitted: b-2
International Business Machines	expense option value at time of grant	Sprinkler Pension Plan	47.3
International Business Machines	pension fund surplus reporting	Parry, D.	18.3%
J.P. Morgan Chase	award performance-based stock options	UBCJA	Withdrawn
J.P. Morgan Chase	disclose executive compensation	Davis, E.	8.4%
J.P. Morgan Chase	review executive compensation	ICCR	8.4%
Johnson & Johnson	link executive pay to EEO advances	Conn. Retirement Plans	Withdrawn
Kimberly-Clark	award performance-based stock options	Sheet Metal Workers	15.4%
Kimberly-Clark	expense option value at time of grant	UBCJA	53.0 %(p)
Kimco Realty	expense option value at time of grant	UBCJA	Withdrawn
Kinder Morgan	award performance-based stock options	IBEW	6.5%
Kinder Morgan	expense option value at time of grant	Laborers	31.1%
Knight-Ridder	expense option value at time of grant	CWA Member	50.5%
Kohl's	award performance-based stock options	IBEW	11.4%
Kohl's	expense option value at time of grant	UBCJA	50.6%
Lehman Brothers Holdings	expense option value at time of grant	UBCJA	Withdrawn
Lennox International	award performance-based stock options	Sheet Metal Workers	20.0%
Lilly (Eli)	award performance-based stock options	Sheet Metal Workers	13.2%
Lilly (Eli)	expense option value at time of grant	UBCJA	41.3%
Lockheed Martin	expense option value at time of grant	UBCJA	withdrawn
Lucent Technologies	report on pension fund investments	Jamgochian, D.	omitted
Manor Care	award performance-based stock options	Teamsters	12.0%
Marriott International	award performance-based stock options	UBCJA	Withdrawn
Marriott International	expense option value at time of grant	IBEW	33.2%
Maximus	expense option value at time of grant	LongView	40.3%
Maytag	require option shares to be held	LongView	29.4%
MBNA	expense option value at time of grant	AFSCME	52.1 %(p)
Mercantile Bankshares	expense option value at time of grant	UBCJA	Withdrawn
Merck	link executive pay to social criteria	Human Life Internatl.	5.0%
Mercury Computer Systems	award performance-based stock options	Teamsters	Awaiting tally
Mercury Interactive	expense option value at time of grant	UBCJA	52.3 %(p)
Milacron	Restrict executive compensation	Sawzin, S.	34.3%
Mirant	discontinue executive bonuses	Silver, G.	Not in proxy
Mirant	expense option value at time of grant	IBEW	61.7 %(p)
Mony Group	restrict compensation to deductibility limits	Kahn-Kirby, A.	38.0%
Morgan Stanley	award performance-based stock options	UBCJA	Withdrawn
Motorola	award performance-based stock options	Laborers	Omitted: b-2
Q	restrict executive compensation	Scumas, C.	Omitted: b-2
NCR	award performance-based stock options	IBEW	15.1%
NCR	expense option value at time of grant	Laborers	53.2%(p)
Newpark Resources	award performance-based stock options	NYCPolice	Not in proxy
Nextel Partners	restrict executive compensation	Siegman, J.	Omitted: b-2
NiSource	eliminate SERPs	Spelbring, R.	Omitted: I-7

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
Office Depot	award performance-based stock options	Laborers	10.1%
Otter Tail	expense option value at time of grant	Olson, D.	34.1%
PeopleSoft	expense option value at time of grant	AFSCME	47.8%
PepsiAmericas	award performance-based stock options	Teamsters	7.5%
PepsiCo	cap executive pay	Kuklo, J.	Omitted I-3
Pfizer	review executive compensation	Srs. St. Francis/Phila.	withdrawn
PG&E	expense option value at time of grant	UBCJA	56.2%
Pinnacle West Capital	expense option value at time of grant	UBCJA	Withdrawn
PPG Industries	expense option value at time of grant	Teamsters	52.4%
PPL	award performance-based stock options	UBCJA	16.2%
Price (T. Rowe) Group	expense option value at time of grant	Bosley, K.	Not in proxy
Price (T. Rowe) Group	expense option value at time of grant	UBCJA	Withdrawn
Progress Energy	award performance-based stock options	IBEW	20.3%
Progress Energy	expense option value at time of grant	UBCJA	45.0%
Provident Financial Group	expense option value at time of grant	UBCJA	Withdrawn
Providian Financial	award performance-based stock options	Operating Engineers	54.5 %(p)
Pulte Homes	expense option value at time of grant	UBCJA	Not in proxy
Qwest Communications International	award performance-based stock options	LongView	Awaiting tally
Qwest Communications International	Pension fund surplus reporting	Floyd, H.	96%
Radian Group	expense option value at time of grant	UBCJA	Not in proxy
Raytheon	award performance-based stock options	IBEW	14.3%
Reebok International	award performance-based stock options	Sheet Metal Workers	19.7%
Reebok International	expense option value at time of grant	UBCJA	Not in proxy
Safeco	award performance-based stock options	Laborers	16.2%
Safeway	award performance-based stock options	Laborers	17.9%
Safeway	expense option value at time of grant	Plumbers, Pipefitters	62.7% (p)
SBC Communications	discontinue executive bonuses	Wallach, B. & M.	13.1%
SBC Communications	Add restrictions to incentive compensation plans	TIAA-CREF	35.4%
Schwab (Charles)	expense option value at time of grant	Sheet Metal Workers	28.9%
Scripps (E.W.) -CI A	expense option value at time of grant	Laborers	Omitted: b-1
Sears, Roebuck	approve extra benefits under SERPs	AFL-CIO	16.3%
Selective Insurance Group	Restrict compensation until performance thresholds are met	Soldoveri, J.	17%
Sempra Energy	restrict executive compensation	Crouch, R. & G.	Omitted: 1-7
Siebel Systems	Add restrictions to incentive compensation plans	TIAA-CREF	37.2%
Siebel Systems	expense option value at time of grant	AFSCME	32.7%
Siebel Systems	no repricing underwater stock options	LongView	Omitted: I-11
Simon Property Group	expense option value at time of grant	UBCJA	Withdrawn
Sprint	expense option value at time of grant	IBEW	Withdrawn
Sprint	cap executive pay	CWA	14.6%
Sprint	no repricing underwater stock options	IBEW	33.0%
St. Paul	terminate the senior executive performance plan	Breyfogle, P.	5.8%
Starbucks	expense option value at time of grant	UBCJA	42.3%
Starwood Hotels & Resorts Worldwide	award performance-based stock options	UBCJA	11.8%
Starwood Hotels & Resorts Worldwide	expense option value at time of grant	IBEW	60.5% (p)
SunTrust Banks	award performance-based stock options	UBCJA	14.1%
SuperValu	expense option value at time of grant	UBCJA	64.3 %(p)
Teco Energy	award performance-based stock options	Plumbers, Pipefitters	27.6%
Teco Energy	expense option value at time of grant	UBCJA	47.4%

## Appendix A: Shareholder proposals on executive and employee compensation in 2003

Company	Resolution	Proponent	Status
Texas Instruments	award performance-based stock options	Laborers	28.6%
Thermo Electron	award performance-based stock options	UBCJA	Withdrawn
Thermo Electron	expense option value at time of grant	Sheet Metal Workers	59.7%(p)
TXU	expense option value at time of grant	UBCJA	Withdrawn
Tyco International	award performance-based stock options	UBCJA	11.0%
U.S. Bancorp	approve extra benefits under SERPs	AFL-CIO	51.6 %(p)
U.S. Bancorp	expense option value at time of grant	UBCJA	59.9 %(p)
UnitedHealth Group	expense option value at time of grant	AFSCME	48.1%
Vectren	award performance-based stock options	Sheet Metal Workers	19.4%
Vectren	expense option value at time of grant	UBCJA	44.3%
Verizon Communications	abolish stock options	AFL-CIO	12.7%
Verizon Communications	award performance-based stock options	Laborers	20.6%
Verizon Communications	cap executive pay	Scinaldi, L.	17.8%
Verizon Communications	expense option value at time of grant	CWA	Withdrawn
Wachovia	award performance-based stock options	UBCJA	withdrawn
Wal-Mart Stores	approve extra benefits under SERPs	AFL-CIO	21.3%
Wal-Mart Stores	award performance-based stock options	UBCJA	6.5%
Wal-Mart Stores	link executive pay to employee health insurance enrollment	SEIU	Omitted: I-7
Washington Mutual	award performance-based stock options	UBCJA	Withdrawn
Washington Mutual	expense option value at time of grant	UBCJA	Withdrawn
Wells Fargo	abolish stock options	AFL-CIO	5.6%
Wells Fargo	expense option value at time of grant	UBCJA	Omitted: I-11
Weyerhaeuser	expense option value at time of grant	Teamsters	51.4 %(p)
Xcel Energy	restrict executive compensation	Davis, R. & M.	Omitted: 1-13
Yahoo	award performance-based stock options	IBEW	8.6%
Yahoo	expense option value at time of grant	UBCJA	34.4%
Zimmer Holdings	expense option value at time of grant	IBEW	47.0%

## Appendix B: Shareholder proposals on executive and employee compensation in 2004

Company	Proponent	Resolution	Status/Meeting Date
Abbott Labs	UBC	Commonsense executive compensation policy	omitted I-11
Adobe Systems	UBC	Expense options	April 28
Adobe Systems	AFSCME	Require holding period on option shares	April 28
Aetna	UA	Commonsense executive compensation policy	April 30
Alaska Air Group	Williamson, T.	Increase Employee Benefits	Omitted: I-3
Alcoa	Catholic Funds	Review Executive Pay	April 30
Allegheny Energy	Whalen, J.	Require holding period on options shares	April 23
Allegheny Technologies	Moser, J.	Expense options	April 23
Allegheny Technologies	LIUNA	Restricted shares	May 6
Allergan	LIUNA	Expense options	April 28
Alliant Energy	Rorick, W.	Cap Executive Pay	omitted: I-7
Allied Waste Industries	SMWIA	Expense options	May 2004
Altera Corp	Teamsters	Expense options	May 11
Amazon.com	IBEW	Restricted shares	May 26
American Electric Power	SMWIA	Expense options	Withdrawn
American Electric Power	AFL-CIO	SERP	April 27
American International Group	UFE, Northstar	Link Executive Pay to Social Criteria	May 19
Amgen	SEIU	Expense options	May 13
AmSouth Bancorporation	Shepherd, E.	Performance/Time-Based restricted shares	Omitted: I-7
Anthem	UA	Expense options	May 17
Apple Computer	UBC	Commonsense executive compensation policy	April 22
Aquila	Boyd, C.	Tie Compensation to Dividends	May 5
Ascential Software	Calpers	Award Performance-Based Stock Options	June 2004
AT&T	Morse, M.	Discontinue Executive Bonuses	Omitted: b-2
AT&T	CWA	Link Executive Pay to social criteria	May 19
AT&T	Domini	Pension Fund Surplus Reporting	withdrawn
AT&T Wireless Services	UA	Commonsense executive compensation policy	May 20
AutoDesk	AFSCME	Require holding period on option shares	June 2004
Avaya	Pennington, P.	Cap Executive Pay	February 26
Bank of America	Sheet Metal Workers	Restricted shares	May 26
Bank of New York	Laborers	Commonsense executive compensation policy	April 13
Baxter International	Siegman, J.	Abolish Stock Options	May 4
Bed Bath Beyond	AFSCME	Require holding period on option shares	June 2004
BellSouth	Baechle, R. & C.	Cap Executive Pay	April 26
BellSouth	UBC	Commonsense executive compensation policy	April 26
Best Buy	IBEW	Commonsense executive compensation policy	June 24
Black & Decker	UBC	Commonsense executive compensation policy	April 27
Boeing	Shuper, D. & G.	Provide Pension Choices	May 3
Boeing	Watt, D.	Require holding period on option shares	May 3
Boise Cascade	UBC	Commonsense executive compensation policy	Withdrawn
Boise Cascade	LIUNA	Expense options	Not available
Calpine	UA	Expense options	May 26
Calpine	IBEW	Restricted shares	May 26
Cendant	ICCR	Cap Executive Pay	April 20
CenterPoint Energy	SMWIA	Restricted shares	June 3
Charles Schwab	SMWIA	Commonsense executive compensation policy	withdrawn
Citigroup	UBC	Commonsense executive compensation policy	April 20
Citrix Systems	UBC	Expense options	May 13
Coca-Cola	Morse, M.	Abolish Stock Options	April 21
Coca-Cola	UFE/Resp. Wealth, Northstar	Report on Stock Options by Race/Sex	April 21
Coca-Cola	Shepherd, E.	Restricted Shares	April 21
Coca-Cola	AFL-CIO	SERP	April 21
Comcast	UBC	Commonsense executive compensation policy	May 26
ConocoPhillips	UBC	Commonsense executive compensation policy	May 5
ConocoPhillips	UA	Restricted shares	May 5
Consolidated Edison	Davis, E.	Disclose Executive Compensation	May 17
Constellation Energy	UBC	Commonsense executive compensation policy	May 21
Constellation Energy Group	UA	Restricted shares	Omitted: I-11
Convergys	LIUNA	Expense options	April 27
Cooper Industries	UA	Restricted shares	April 27

Crown Holdings	Morse, R.	Abolish Stock Options	Omitted: I-9
CVS	UBC	Commonsense executive compensation policy	May 12
Cytec	Vincent, M.	Tie compensation to dividends	Omitted: I-13
Deere	Buhr, M.	Increase Pension Benefits	Omitted: b-2
Dell	AFL-CIO	Expense options	July 2004
Delta Air Lines	ICCR	Cap Executive Pay	withdrawn
Delta Air Lines	LIUNA	Commonsense executive compensation policy	April 23
Delta Air Lines	SMWIA	Restricted shares	April 23
Delta Air Lines	Teamsters	Restricted shares	April 23
Delta Airlines	Longview	SERP	Withdrawn
Deluxe Corp.	IBEW	Commonsense executive compensation policy	May 4
Diebold	Longview	SERP	April 22
Dominion Resources	UBC	Commonsense executive compensation policy	Withdrawn
Dominion Resources	Utility Workers	Restrict Executive Compensation	April 23
Donnelly (R.R.) & Sons	UA	Expense options	April 2004
Dow Chemical	UA	Commonsense executive compensation policy	May 13
Duke Energy	UBC	Commonsense executive compensation policy	Omitted: E-2
Dynergy Class A	UA	Restricted shares	May 20
E.I. Dupont de Nemours	IB of Dupont Workers	Commonsense executive compensation report	April 28
E.W. Scripps	UA	Commonsense executive compensation policy	Omitted: b-1
Eastman Chemical	UBC	Restricted shares	May 6
Eastman Kodak	UA	Restricted shares	Withdrawn
eBay	IBEW	Expense options	June 2004
Echostar Communications	LIUNA	Commonsense executive compensation policy	May 6
Ecolab	UA	Commonsense executive compensation policy	Withdrawn
El Paso	Laborers	Commonsense executive compensation policy	May 20
El Paso	UA	Expense options	May 20
El Paso	Catholic Funds	Review Executive Pay; Consider social link	May 20
Electronic Data Systems	UBC	Commonsense executive compensation policy	May 25
Electronic Data Systems	AFL-CIO	Expense options	May 25
EMC Corp	SMWIA	Commonsense executive compensation policy	May 5
Equifax	UBC	Restricted shares	April 28
Exxon Mobil	UFE/Resp. Wealth	Report on Stock Options by race/sex	May 26
Exxon Mobil	Morse, R.	Restrict executive compensation	May 26
First Tennessee National	UBC	Commonsense executive compensation policy	April 20
FirstEnergy	SMWIA	Expense options	May 18
FirstEnergy	Rorick, W.	Tie Compensation to Dividends	May 18
Fleet Boston Financial Group	SMWIA	Commonsense executive compensation policy	April 2004
FleetBoston Financial	Davis, E.	Disclose Executive Compensation	April 2004
Ford Motor	Davis, E.	Disclose Executive Compensation	May 13
Gannett	UBC	Commonsense executive compensation policy	May 4
Gap	UA	Commonsense executive compensation policy	May 2004
Gap	SWMIA	Expense options	Not available
General Electric	Gavitt, A.	Link pay to performance	April 28
General Electric	Steiner, W.	Require holding period on option shares	April 28
General Electric	School Srs./Notre Dame, CBIS	Review Executive Pay	April 28
General Motors	Morse, R.	Abolish Stock Options	June 2
General Motors	Hartnagel, R.	Amend pension plan	June 2
General Motors	Hirsch, T.	Require holding period on option shares	June 2
Genuine Parts	UBC	Restricted shares	April 19
Genzyme	SMWIA	Restricted shares	May 27
Gillette	Plumbers, Pipefitters	Expense options	May 20
Goodrich Corp.	UBC	Restricted shares	Omitted: I-9
Guidant Corp.	UA	Expense options	May 18
Hartford Financial Services Group	Laborers	Commonsense executive compensation policy	May 20
Hewlett-Packard	LIUNA	Expense options	March 17
Home Depot	AFSCME	Restricted stock performance goals	May 2004
Honeywell International	Providence Trust, Catholic Funds	Review executive Pay; consider social link	April 26
ICOS	UBC	Restricted shares	May 14
Illinois Tool Works	UA	Commonsense executive compensation policy	withdrawn
Intel	Morse, R.	Abolish Stock Options	omitted: b-2
Intel	SEIU	Award Performance-based Stock Options	May 19
Intel	AFL-CIO	Performance/Time-Based Restricted Shares	May 19
Intel Corporation	UBC	Expense options	May 19

International Business Machines	Plumbers, Pipefitters	Expense options	April 27
International Business Machines	Leas, J.	Provide pension choices	April 27
International Business Machines	Parry, D.	Pension fund surplus reporting	April 27
International Business Machines	Foster, E.	Restrict Executive Compensation	omitted: b-2
International Business Machines	Mangi, J.	Review executive compensation	April 27
International Flavors/Fragrances	UA	Commonsense executive compensation policy	withdrawn
International Paper	UBC	Commonsense executive compensation policy	May 11
International Paper	AFL-CIO	Expense options	Not available
International Paper	Harris, T.	Restrict executive/director compensation	Not available
Interstate Bakeries	Teamsters	Commonsense executive compensation policy	September 2004
J.P. Morgan Chase	UA	Expense options	May 2004
J.P. Morgan Chase	Oblates Mary Immac.	Review Executive Pay; Consider Social Link	May 2004
Kerr-McGee	UA	Restricted shares	Withdrawn
Kimberly-Clark	SMWIA	Commonsense executive compensation policy	withdrawn
Kinder Morgan	LIUNA	Expense options	May 11
Kohl's	UBC	Expense options	April 28
Kohl's	UA	Restricted shares	April 28
Kroger	UBC	Restricted shares	June 2004
Lilly (Eli)	SMWIA	Commonsense executive compensation policy	April 19
Lucent Technologies	Raschke, J.	Monitor pension trust	Omitted: I-7
Lucent Technologies	Moore, R.	Restrict Executive Compensation	omitted: I-7
Manor Care	SMWIA	Commonsense executive compensation policy	May 5
MBNA	UBC	Commonsense executive compensation policy	May 3
MBNA	AFSCME	Expense options	May 3
MeadWestvaco	LIUNA	Expense options	withdrawn
Merck	Morse, R.	Abolish Stock Options	March 27
Merck	UA	Commonsense executive compensation policy	April 27
Merck	Human Life Internatl.	Link Executive Pay to Social Criteria	April 27
Merrill Lynch	IBEW	Commonsense executive compensation policy	Omitted: b-2
Metlife	ICCR	Cap Executive Pay	April 27
Milacron	SMWIA	Commonsense executive compensation policy	Not available
Moody's Corp.	LIUNA	Restricted shares	April 27
Moody's	UBCJA	Performance/Time-Based Restricted Shares	March 27
Motorola	UA	Commonsense executive compensation policy	May 3
Motorola	SMWIA	Restricted shares	
National Fuel Gas	Teaticket, R.	Cap Executive Pay	February 19
NCR	Morse, R.	Abolish Stock Options	March 28
NCR	UBC	Commonsense executive compensation policy	April 28
Novell	Calpers	Award performance-based stock options	April 15
Novell	LIUNA	Expense options	April 15
Novellus Systems	LIUNA	Commonsense executive compensation policy	April 16
NVIDIA	LIUNA	Expense options	July 2004
Occidental Petroleum	UA	Commonsense executive compensation policy	withdrawn
Ohio Casualty	SWMIA	Commonsense executive compensation policy	April 21
Otter Tail	Olson, D.	Restrict Executive Compensation	omitted: I-3
Owens-Illinois	LIUNA	Commonsense executive compensation policy	May 12
Paccar	UBC	Restricted shares	April 27
PeopleSoft	AFSCME	Expense options	March 25
PeopleSoft	UA	Expense options	
PepsiAmericas	Teamsters	Restricted shares	April 22
PepsiCo	Teamsters	Expense options	May 5
Perkin Elmer	UBC	Expense options	April 27
Pfizer	UA	Commonsense executive compensation policy	April 22
PG&E	SMWIA	Commonsense executive compensation policy	April 21
PPG	Teamsters	expense options	Withdrawn
Proctor & Gamble	Teamsters	Restricted shares	Oct 12
Progress Energy	UBC	Expense options	May 12
Provident Financial Group	SMWIA	Commonsense executive compensation policy	May 20
Pugent Energy	SMWIA	Restricted shares	May 4
Raytheon	UA	Commonsense executive compensation policy	May 5
Raytheon	AFL-CIO	Expense options	May 5
Raytheon	Teamsters	SERP	May 5
Reebok International	SMWIA	Commonsense executive compensation policy	Withdrawn
Reliant Resources	Jordan, D.	Cap Executive Pay	June 2
Reliant Resources	Nelson, C.	Require holding period on option shares	June 2
SAFECO	UBC	Restricted shares	May 5

Safeway	UA	Expense options	May 20
SBC Communications	O'Halloran, J.	Cap executive pay	Omitted: b-2
Schering-Plough	LongView	Award Performance-based Stock Options	April 27
Schwab (Charles)	UA	Commonsense executive compensation policy	withdrawn
Scripps (E.W.)	UA	Commonsense executive compensation policy	Omitted: b-1
Siebel Ssystems	LIUNA	Commonsense executive compensation policy	June 2004
Siebel Systems	AFSCME	Expense options	
Siebel Systems	UBC	Expense options	June 2004
Sprint	IBEW	Award Performance-based Stock Options	April 20
Sprint	Speight, G.	Cap Executive Pay	April 20
St. Jude Medical	UA	Commonsense executive compensation policy	May 12
Staples	UBC	Commonsense executive compensation policy	June 2004
Starbucks	UBC	Expense options	Withdrawn
TECO Energy	LIUNA	Expense options	April 28
TECO Energy	UBC	Restricted shares	April 28
Teradyne	UBC	Restricted shares	May 27
Texas Instruments	LIUNA	Expense options	April 15
Textron	UBC	Restricted shares	April 28
Thermo Electron	SMWIA	Restricted shares	May 2004
Time Warner	UBC	Commonsense executive compensation policy	withdrawn
Time Warner	CBIS, Calvert	Review executive pay; consider social link	May 21
Torchmark	UBC	Restricted shares	April 29
TXU	IBEW	Require holding period on option shares	May 21
Tyco International	UBC	Commonsense executive compensation policy	March 25
Tyco International	Hall, R.	Increase pension benefits	Omitted: I-7
Tyco International	UA	Restricted shares	Not in proxy
U.S. Bancorp	UBC	Commonsense executive compensation policy	April 20
U.S. Bancorp	Sheet Metal Workers	Performance/Time-Based Restricted Shares	not in proxy
U.S. Bancorp	UA	Restricted shares	April 20
U.S. Bancorp	AFL-CIO	SERP	April 20
Union Pacific	Locomotive Engineers	Performance/Time-Based Restricted Shares	March 16
Union Planters	UBC	Commonsense executive compensation policy	April 15
Unisys Corp	UA	Restricted shares	Withdrawn
United Technologies	LongView	Award Performance-based Stock Options	April 14
United Technologies	Davis, E.	Disclose executive compensation	April 14
UnitedHealth Group	AFSCME	Expense options	May 12
UnitedHealth Group	SMWIA	Restricted shares	
Unocal	UBC	Restricted shares	May 24
Vectren	SMWIA	Expense options	April 28
Verizon Communications	Northstar	Report on stock options by race/sex	April 28
Verizon Communications	CWA	Restrict Executive Compensation	March 28
Verizon Communications	BellTel Retirees	SERP	April 28
Viacom	ICCR	Cap Executive Pay	withdrawn
Wal-Mart	Northstar	Report on stock options by race/sex	June 4
Wal-Mart	UA	Restricted shares	Omitted: E-2
Wal-Mart	AFL-CIO	SERP	June 4
Washington Mutual	Harris, T.	Abolish stock options	Omitted: I-1
Washington Mutual	SMWIA	Commonsense executive compensation policy	withdrawn
Waste Management	SMWIA	Restricted shares	May 14
Watson Pharmaceuticals	UA	Commonsense executive compensation policy	May 2004
Weingarten Realty Inve.	UBC	Restricted shares	April 23
Wells Fargo	LIUNA	Commonsense executive compensation policy	April 27
Wells Fargo	Northstar	Link executive pay to social criteria	April 27
Weyerhaeuser	UBC	Expense options	April 13
Weyerhaeuser	Teamsters	Restricted shares	April 13
Williams	LIUNA	Commonsense executive compensation policy	May 20
Williams	UA	Restricted shares	May 20
Woodward	English, G.	Performance based compensation system	Omitted: I-3
Xcel Energy	Rorick, W.	Tie compensation to dividends	May 20
Yahoo	UBC	Expense options	May 21