A Shareowner – Management Dialogue on Governance Issues & Long-term Corporate Value

A Worker-Owner Activism White Paper

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I. Introduction

For many years now, the pattern of corporate shareowner activism in the United States has been set: An increasing number of shareholder proposals submitted by a changing mix of institutional and individual shareowners to companies, some more willing to talk and others more determined to resist the majority voice of their shareowners on reform proposals. Against this background, the Taft-Hartley pension funds associated with the United Brotherhood of Carpenters, the International Brotherhood of Electrical Workers, the Laborers' International Union of North America, the Sheet Metal Workers' International Association, the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry, the International Association of Bridge, Structural and Ornamental Iron Workers, and the International Union of Operating Engineers (collectively "Trades' Funds" or "Funds") initiated a dialogue on governance issues designed to examine and promote corporate value maximization and responsible corporate behavior. Shareholder proposals submitted to a diverse group of companies over the course of two proxy seasons addressed a blend of new topics - such as triennial director elections, enhanced stock voting rights, and shareowner proxy access rights - along with familiar issues such as executive compensation, corporate strategic planning, and director independence. Each Fund participated in this collective endeavor in a manner that comported with its view of its rights and duties under the Employee Retirement Income Security Act of 1974 (ERISA).

The ensuing dialogue with dozens of corporate executives and directors has been a very constructive and productive process. The discussions and debates on the specific governance issues presented in shareholder proposals and on a broad range of governance issues were well informed and informative for those involved. New ideas and concepts were met with open minds. Broad areas of common ground were established, while Fund and corporate advocacy was advanced in defense of strongly held core principles. The most significant area of agreement was on the need to put in place corporate governance policies and practices that allow corporate boards and managements to focus corporate strategy on maximizing long-term corporate value in the face of relentless market pressure to produce an attractive short-term stock price.

II. Responsible Corporate Ownership: Funds' Activism History

The Trades Funds have been corporate shareowner activists for nearly two decades, exercising the rights and accepting the responsibilities of corporate ownership. The Funds exercise their ownership rights to maximize the long-term value of their portfolios and the corporations in which they invest. Informed proxy voting and shareowner activism are tools employed by the Funds to promote corporate accountability and maximize the economic value of the Funds' investments over the long-term.

The participants and beneficiaries of the Trades Funds are men and women who work in the construction industry, as well as in numerous private sector manufacturing and service enterprises. These workers are corporate owners through their pension funds, but they also relate to many of these same corporations as employees, customers, and active members of the communities where these companies operate. Their livelihoods and quality of life are in many ways directly related to the operations and success of the corporate enterprises in which their retirement funds are invested. As representatives of plan participants and beneficiaries that are multi-faceted stakeholders in these corporate enterprises, the Funds' focus is on promoting the long-term success of the corporate enterprises in which they invest. The promotion of healthy and growing companies contributing to regional and national economic growth is a strong formula for enhancing Fund portfolio value and providing important employment benefits to participants and beneficiaries. Our Funds, as owner representatives of workers, are uniquely positioned to ensure that corporations make the appropriate investments in institutions, ideas, and people necessary to maximize long-term corporate economic value.

Ownership activism to advance Fund participant interests has been important for some time. The merger and takeover activity during the 1980's provided the impetus for new levels of institutional shareowner activism and spurred collective activism among shareowners, many of who had not previously participated in corporate governance debates. Several Trades' Funds were active participants in early corporate governance debates, submitting some of the first shareholder proposals addressing unjustified management entrenchment efforts. Although the Funds were leading opponents of management entrenchment, they questioned the efficiency and productiveness of hostile corporate takeovers as a method of management accountability. Hostile corporate control fights were seen as a poor method of achieving regular and incremental improvements in management practices. The highly leveraged transactions encouraged short-term stock speculation and forced corporate managements into defensive postures that accented short-term stock price maximization strategies to the detriment of the long-term value of the enterprise.

The Funds' activism throughout the decade of the 1990's was likewise motivated by a desire to construct a corporate governance model that struck a balance between management accountability and management's ability to develop and implement a strategic plan for long-term corporate value maximization. Along with other institutional shareowners, the Funds' activism focused on injecting vitality into the moribund system of corporate democracy. The Funds advocated for the protection and extension of the principle of "one-share one-vote," confidential voting, shareholder proxy access to nominate and advance non-management board candidates, and the promotion of the corporate board as a true independent overseer of management.

Pronouncements by the U.S. Department of Labor ("DOL") in the late 1980's and the early 1990's concerning proxy voting and shareholder activism under ERISA helped to focus and encourage the Funds' shareholder activism. The DOL Pension Welfare Benefits Administration's 1988 letter to Avon Products, Inc. (*Avon Letter*, February 23, 1988) established that the fiduciary act of managing plan assets that are shares of corporate stock would include the voting of proxies appurtenant to the shares of stock. A plan's fiduciary is required to discharge the duties associated with the voting of proxies solely in the interests of the participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries. Proxy voting is both a right and a duty.

The DOL's 1994 Interpretive Bulletin 94-2 ("Bulletin 94-2") for the first time consolidated into one source the legal framework under ERISA for voting proxies by employee benefit plan fiduciaries.[1] Bulletin 94-2 affirmed that voting rights appurtenant to shares of corporate stock held by benefit plans are plan assets that must be exercised in the best interests of participants and beneficiaries. Further, it established that a benefit plan's investment policy that contemplates activities intended to monitor or influence management of a corporation in which the plan owns stock is consistent with a fiduciary's obligations under ERISA where the responsible fiduciary concludes that there is a reasonable expectation that such monitoring or communication with management is likely to enhance the value of the plan's investment in the corporation after taking into account the costs involved. The shareowner monitoring and communication activities specifically discussed in the Bulletin covered a range of issues, such as the independence and expertise of candidates for a corporation's board of directors, corporate executive compensation policies, a corporation's policy regarding mergers and acquisitions, the nature of long-term business plans, a corporation's investment in training to develop its work force and other workplace practices. The methods and means of monitoring and communication envisioned included informal activities, as well as the formal exercise of shareowner legal rights.

Our Funds' shareowner activities have incorporated the entire range of actions envisioned by Bulletin 94-2, including the submission of shareholder proposals, implementation and revision of proxy voting guidelines, participation in collective shareowner advocacy efforts, and engagement of senior corporate executives in a dialogue on a variety of important governance issues. The results of the Funds' activism, along with that of other institutional investors, have generally been positive: Governance processes are more democratic;

corporate boards are more independent; corporate managers are more responsive to owners; the spotlight has been put on executive compensation excesses, and companies have been forced to confront irresponsible behavior. These responsible ownership activities have enhanced the value of targeted companies and the Funds' investment portfolios.

But all the news is not good. The underlying premise of much of today's shareowner activism remains the promotion of an active market for corporate control. In response to lagging corporate performance, shareowner activism has often been reflexive and simplistic, too often offering formulistic governance proposals that fail to address the root causes of performance shortcomings. The nature of this shareowner advocacy combined with the market's short-term performance pressure creates a corporate urgency to generate short-term "shareholder value." Unfortunately, the daily stock price and other short-term performance measures have come to define "shareholder value" and corporate success. Short-term "shareholder value" often is "value" extracted from the corporation or corporate constituents that are vital to the corporation's long-term success. The price of a corporate strategy centered on short-term earnings performance can be measured in many ways: A failure to modernize and reinvest in new capacity; workplace practices and policies that suffocate employee morale and commitment; poor product quality and an abandonment of innovation; lost market share opportunities; a spoiled environment; regulatory and community opposition, and a vulnerable stock price.

III. Ownership Activism to Enhance Long-Term Corporate Value

Protecting and enhancing the long-term value of a corporation is the duty owed shareowners by the corporation's board and management. Creating a governance environment that encourages board and management pursuit of long-term corporate value enhancement, while providing shareowners appropriate management accountability measures, is the challenge. Governance systems need management accountability mechanisms that rely less on the workings of the corporate control market and more on active monitoring by patient owners. Ownership rights that promote patience and attentiveness are important components of a corporate governance system that focuses corporate leadership on strategies to build growing and innovative companies.

Building on a solid foundation of responsible shareowner activism, the Trades' Funds have undertaken a new phase of shareowner activism designed to promote more effectively the enhancement of long-term corporate value, not simply short-term "shareholder value." The Funds set out to stimulate a constructive discussion and debate among managers and investors on a set of governance issues designed to promote the pursuit of long-term corporate value maximization goals. To this end, corporate governance reform proposals ("Proposals") that reflect the Funds' long-term investment perspective were developed. The governance policies advanced in the Proposals address the general areas of director elections, executive compensation, shareholder voting rights, and shareowner disclosure.

The Proposals present a blend of new board and management accountability mechanisms and investor incentives to promote long-term ownership. The governance system promoted by the Proposals envisions informed and engaged shareowners providing both encouragement and support to the task of producing long-term corporate value. While each governance reform addressed a distinct governance practice, the Proposals were developed as a complementary set of reforms. The Proposals were as follows:

1. **Strategic Plan Report:** A proposal asking for the preparation and disclosure of a "Strategic Plan Report" outlining the corporation's long-term strategy and the policies and practices related to important corporate constituents that are designed to achieve long-term corporate success;
2. **Triennial Director Elections**: A proposal calling for the initiation of a director election system under which the entire slate of board nominees would stand for election every third year;
3. **Shareowner Access to the Proxy:** A proposal establishing shareowner access rights to the corporation's proxy statement for purposes of advancing a non-management candidate for the board of directors;
4. **Enhanced Voting Rights:** A proposal that calls for the one-time doubling of shareowner voting rights for those shareowners who continuously hold a corporation's stock for an extended period of time (five years);
5. **Executive Compensation:** Proposals that urge the institution of executive compensation policies and practices based on pay-for-performance principles providing appropriate incentives to senior management to pursue and accomplish long-term corporate value maximization goals, and
6. **Director Independence:** Proposals addressing the overall independence of corporate boards and key board committees.

The Proposals are not in each instance novel ideas or propositions. The general governance topics addressed have been discussed and debated either in academic writings or in the ongoing corporate governance debate. It is clear that several of the Proposals, most notably the triennial election proposal, advocate governance reforms that are fundamentally different from those recently advanced by the Funds and other institutional investors. However, by advancing the complementary governance concepts as shareowner proposals, the Funds began the process of testing the strengths and weaknesses of the concepts, gauging corporate and shareowner receptivity to the proposed reforms, and challenging current corporate practices and governance formulations.

IV. Dialogue on the Proposals

As indicated, the governance issues were drafted as a complementary set of shareowner proposals and formally submitted by the Funds to corporations pursuant to the U.S. Securities and Exchange Commission ("SEC") Shareholder Proposal Rule.[2] The Funds engaged a universe of companies designed to provide for a broad airing of the Proposals. Forty-four companies from different competitive environments and industries were selected to receive all or several of the Proposals. An additional twenty companies received the entire set of Proposals informally. Poor financial performance or particular governance deficiencies were not the guiding targeting criteria; rather we attempted to identify a set of companies in which the Funds held significant interests and which operated across a number of important industries. Specific Proposal targeting criteria included the following: the size of the Funds' cumulative stock ownership in the particular company; the industry in which the company operated; market capitalization, and the company's financial and stock price performance history.

Upon receipt of the Proposals, most companies contacted the Funds and agreed to meet to discuss the issues raised in the Proposals. A number of companies responded with the submission of "no-action" letter requests to the SEC staff raising technical and substantive grounds for omission pursuant to Rule 14a-8.[3] A summary of the various grounds for omission of the Proposals raised in the "no-action" letter requests is provided in Appendix A. In almost all cases, the corporations withdrew the "no-action" letter requests following the proponent Fund's formal withdrawal of the Proposals at issue and a mutual commitment to meet and discuss the issues. However, the SEC staff did issue "no-action" letters on the Proxy Access[4] and the Strategic Plan Report[5] proposals, concurring with company arguments that the Proposals could be omitted from the company's proxy statement. The SEC staff did not issue a requested "no-action" letter on the Triennial Election Proposal.[6]

Over the course of several months, numerous meetings to discuss and debate the Proposals were held with senior company representatives, including chief executive officers and board chairs, board members, chief operating and financial officers, corporate secretaries, and executive compensation, legal and environmental experts. A list of the company representatives who participated in the corporate governance meetings with the Fund representatives is provided in Appendix B. Thoughtful preparation by all parties allowed for very focused and constructive discussions of specific governance provisions. The discussion also provided an opportunity to exchange ideas on general corporate governance principles, the state of shareowner activism, and the challenges presented by globalization to corporate strategy, performance, and governance. The material below summarizes the important points raised in the dialogue and identifies areas of agreement and disagreement between the parties. Statements made by company representatives that highlight or summarize a certain point of view are included. These statements are not directly attributed to any particular individual or company so as to protect the integrity of the meeting process. Meetings were held with representatives from the following companies:

BankOne Corporation	CVS Corporation	Texaco Corporation
Chevron Corporation	Cincinnati Financial	Wal-Mart Corporation
Cinergy Corporation	E.I. Dupont Corporation	Wisconsin Energy
Enron Corporation	Entergy Corporation	
Exxon-Mobil Corporation	Fort James Corporation	
General Dynamics	General Electric	
Georgia-Pacific Corp	H.J. Heinz	
Home Depot	International Paper	
J.C. Penney	KeyCorp	
Kroger Corporation	Lowe's Corporation	
Mead Corporation	Milacron Corporation	
MGIC Corporation	PPG Industries	
PNC Bancorp	Sherwin-Williams Co	
Procter & Gamble	TRW	
The Southern Company	Tricon Global Restaurants	

Many of the companies that participated in the meetings can be characterized as "old economy" companies, which at the time of the meetings were experiencing solid financial performance but poor stock valuations. The precipitous drop in the value of technology stocks and the broader markets' retreat had yet to occur. Solid fundamental performance combined with poor stock price valuations produced a strong sense of frustration that prompted many companies to at times second-guess their long-term performance orientations. The market environment and specific company experiences generated strong sentiment on the following issues:

(1). The companies across the entire spectrum of industries expressed frustration with Wall Street's strong emphasis on short-term stock price performance to measure corporate performance. The following comments reflect the sentiment:

- "We struggle to balance what's best on a long-term basis with how it will be viewed in the short-term."
- "Our board is frustrated with the short-term perspective of Wall Street."
- "You can't listen to the Street all the time, if you did, you'll sell off the company. The Board pushes back against the Street's pressure."
- "The market's short-term perception of the company dissuaded management from pursuing an investment that had great long-term potential."
- "Wall Street looks only at the short-term."
- "The psychological and communicative pressure from institutional shareholders is almost extortion."

(2). Investment analysts and institutional investors often have very little understanding and appreciation of management's job of "balancing" the interests and needs of multiple corporate constituents in order to ensure sustained corporate profitability and viability. The companies indicated that they do not converse with the analyst community or institutional shareholders regarding the interests of other corporate constituents for the simple reason that analyst and investor interests are focused on what companies are doing to generate “shareholder value.” The complexities of balancing and blending important or “core” constituent interests to produce sustained corporate value growth are of little or no interest to short-term investors. The rise of shareowner power and influence relative to other important corporate constituents in recent decades highlights the danger of this narrow perspective guiding corporate policy and strategy.

- “Normally, when I meet with investors, they don’t give a damn about how I view my core constituencies. They want to know how much I’m going to earn.”
- “We’d lose the analysts in a minute if we don’t talk about things you can put a number on.”

(3). There is genuine and widespread interest in and support for the long-term ownership and investment perspectives reflected in the Proposals. Despite a wide divergence of opinion on the value of specific governance provisions raised in the Proposals, there was positive response to the initiative and a willingness to continue dialogue designed to produce constructive change.

- “We applaud where you’re going.”
- “We have a commonality of interests with you.”
- “We like your general direction and will support it if we can.”
- “It’s nice to hear an understanding of what it takes to run a business.”
- “The proposals and the approach they represent are highly commendable, but they are up against human nature and greed on Wall Street.”

Shareowner Issue # 1: Corporate Strategic Plan Report

Proposal Text: Resolved, that the shareowners of the Company urge that the Board of Directors and senior management prepare for shareowners an annual Strategic Plan Report ("SPR"). The Company's SPR should describe the Company's goals, the strategic initiatives designed to accomplish the stated goals, and the accompanying range of corporate policies and programs. In the SPR, the Board and senior management should detail the roles of the corporate constituents, such as shareowners, employees, customers, suppliers, and the community, which are integral to the achievement of the Company's long-term strategic goals. Further, the SPR should describe specific Company programs and policies designed to ensure the contribution of important corporate constituents to the long-term success of the Company.

Proposal Background: The SPR Proposal was prompted by the Funds' view that the disclosure provided by the typical public corporation lacks important information for active shareowners interested in the long-term performance of the corporation. The corporate Strategic Plan Report ("SPR") envisioned by the Strategic Plan Report Proposal ("SPR Proposal") called for corporate disclosure to shareowners of information on three distinct topics: (1) The corporation's goals and strategic initiatives strategy; (2) the board of directors' role in the development and implementation of the corporate strategy; and (3) the programs and policies in place to encourage and reward the contributions of the important corporate constituents critical to the corporation's success. In advancing the concept of a SPR, the Funds' were endeavoring to accomplish the following: Prompt a clearer articulation to shareowners of a company's overarching strategy for long-term corporate success; highlight the importance of a board's direct involvement in corporate strategy development, and promote better reporting on policies, practices and programs that encourage and reward the contributions of important corporate constituents, such as employees and communities.

Many corporations put considerable thought and resources into preparing and disseminating a range of required reporting documents for shareowners. Legal disclosure requirements, in large measure, guide the disclosure and often limit the depth of the discussion of the company's operations and future plans. These disclosure documents, including the annual report, the form 10-K, quarterly reports, and proxy statements provide considerable financial information and narrative concerning a company's business, management, board of directors, and financial performance. Specifically, the CEO's letter in the corporate annual report often discusses the corporation's goals and strategy. Many companies complement required disclosure with reports on a range of programs, practices and policies, including the environment, occupational safety and health, and community activities.

Scouring a company's complete set of disclosure documents and issue reports reveals elements of the disclosure requested in the SPR. Disclosure concerning a company's broad-based employee stock ownership plan or "high performance" workplace practices initiatives can be relegated to a footnote. Environmental and occupational safety and health performance records and programs may be extensively discussed in separate reports that few shareowners see. Product quality and research and development programs may be relegated to a brief note in an executive compensation committee report. What is often lacking in the barrage of documents is a comprehensive presentation of the corporation's strategy for long-term success and the policies and programs critical to the successful implementation of the corporation's strategy. The SPR would provide a comprehensive description of these and other practices and programs with discussion of how each contributes to the long-term success of the corporation. The SPR is not intended as a report that provides full details of important programs and initiatives, but rather is a report that indicates how the diverse set of initiatives and programs related to varied aspects of the company's business and different constituents fit within the framework of the company's long-term strategic plan.

The SPR's call for disclosure on the role of the board in setting corporate strategy was based on the Funds' belief that it is critically important that a company's board be directly involved in the development of the corporation's strategic plan. A recent Pricewaterhouse

Coopers' report entitled "Corporate Governance and the Board – What Works Best" identified the following key board of director roles in the strategy development process:

- Reviewing and challenging options, adding additional perspective, and agreeing on appropriate measures for success.
- Reviewing the strategy development process to ensure it is sufficiently robust to consider the appropriate range of strategic alternatives and to assess them properly.
- Monitoring implementation through agreed metrics and providing operational and tactical guidance to management.[7]

The Report states that if directors effectively undertake these roles, they can improve strategy and quicken the decision-making process by ensuring consensus on the strategy and driving investment and operating decisions supportive of that direction. A variety of factors, such as the size of a company, the complexities of its business, the competitiveness of product and capital markets, may influence the level of director involvement in strategy development. So, while there may be no set level or formula for board involvement in strategy development, the Funds believe that disclosure to shareowners of the strategy development process and the board's role in this process is critically important in developing shareowner understanding of and support for the corporation's long-term strategy.

Corporate Dialogue: Company representatives, while generally supportive of the SPR concept and goals, defended the breadth and depth of their current reporting. It was also readily apparent from the corporate discussions that the SPR Proposal as drafted was less than clear to many who in good faith attempted to understand and respond to it. The most common misconception was that the SPR simply called for a more in-depth discussion of the corporation's strategic plans and implementation steps, including the revelation of information that could harm the corporation's competitive posture. Despite the drafting shortcomings, the SPR Proposal generated positive discussion on the following topics: (1) corporate strategic plan disclosure; (2) the board of directors' role in the strategic planning process; and (3) the programs in place to encourage and reward the contributions of important corporate constituents.

Most company representatives felt their company public disclosure documents, principally the annual report and specifically the President's letter in the report, effectively described the company's strategic plan in an appropriate degree of detail. The prime concern expressed by company representatives, despite the note in the Proposal's supporting statement to the contrary, was that the SPR was requesting corporate strategy disclosure that would harm a corporation's competitive position. Many saw the SPR as a whole new reporting document. The statement by one company representative captured the concerns of many: "I applaud where you're going. However, I fear it (the SPR) becomes very boilerplate and bland because attorneys will caution against it." Another added that the SPR would become "a road map for the plaintiff's bar."

The criticism of the SPR Proposal on the issue of disclosure of a corporation's corporate strategy was justified. A review of the key corporate disclosure documents indicated that most companies could persuasively argue that the company's basic corporate strategy was conveyed to shareowners in an appropriate degree of detail. Corporate website postings of analyst presentations and other documents complement required disclosure on corporate strategy. What is generally lacking in corporate disclosure documents is information on the board of directors' role in the development of corporate strategy and an identification of the important corporate constituents, along with a discussion of the programs and policies in place to maximize their contribution to the corporation's long-term success.

A review of the documents prepared by the companies that received the SPR Proposal and the ensuing dialogue concerning the role of the board of directors in strategy development provided two clear insights. First, the companies that received the SPR Proposal generally do not report to shareowners on the corporate strategy development process or on the role played by directors in that process. Second, a board of directors' role in the corporate strategy development process varies widely from company to company.

A description of a board's role in strategy development is not required disclosure. And while the companies engaged did not report on director strategy development involvement in their disclosure documents, all the companies were very forthcoming in describing the strategy development process generally and the board's role specifically. The general lack of reporting in shareowner disclosure documents appears to be related more to the perceived lack of interest on the part of company shareowners in this information rather than hesitancy on the part of corporations to report on their board's role.

The dialogue revealed that the role of the board in strategy development ranges from a relatively minor role of reviewing and approving strategic plans prepared by management, to meaningful involvement in the entire process of strategic plan development. Not surprisingly, the role ascribed to the board in strategy development at a particular company in large degree reflects the chief executive officer's general view on the role of the board. At those companies where the board's primary role is seen as addressing a serious corporate performance issue in time of need, the role ascribed to the board in strategic planning was relatively minor. Conversely, at those companies where the board's overall role as stewards of the corporation was viewed very broadly, the company representatives described a very involved role for the board, including participation in each phase of the strategy development process. The lack of information in disclosure documents concerning the role of the board in the strategy development process is a serious shortcoming that future dialogue and activism will address.

A central disclosure component of the proposed SPR was identification and discussion of the important corporate constituents that are vital to the success of a company. The Funds believe that discussions in shareowner disclosure documents of a company's important corporate constituents, along with the corporate programs and policies to maximize and reward their contributions, are important to promoting the long-term success of the corporation. Our dialogue with the corporate representatives revealed strong agreement in recognizing the vital contributions by employees, communities, suppliers and other important stakeholders to long-term corporate success. We also found considerable frustration on the part of the corporate representatives with the investment community's lack of appreciation for the contributions of employees, communities and suppliers towards overall corporate success.

- All the companies could identify the corporate constituents vital to the company's long-term success, with most companies identifying customers, shareowners and employees as the critical constituents.
- Few companies discussed employees, suppliers, communities, the environment or other stakeholders in any significant degree in their disclosure documents.
- A number of companies have produced good environmental or occupational safety and health reports, but often these reports are not broadly circulated.
- While companies maintain programs and policies to reward and provide performance incentives for important stakeholders, there is little discussion of these practices in disclosure documents.
- There was a near unanimous view among the corporations engaged that Wall Street and the investor community more generally have little or no interest in information concerning these corporate constituents.
- There is no or little appreciation in the investment community for the management task of "balancing" the interests of multiple corporate constituents in order to achieve sustained profitability.

It was in discussing the important roles of corporate stakeholders with the corporate representatives that we heard the most frustration voiced towards the investment community. Executives in companies across the complete spectrum of industries engaged repeatedly spoke of the daily challenge to "balance" the needs and interests of all the company's stakeholders in order to ensure corporate success. While acknowledging that this "balancing" was their managerial responsibility, most managers found the investment community's complete lack of interest in and appreciation for these balancing responsibilities to be both frustrating and inhibiting. The comments of several of the corporate representatives reveal these deep-seated frustrations:

- "If I talked about this softer side, I'd lose the analyst's interest. Yet issues about employees, community, and the environment are discussed extensively within the company."
- "Normally when I meet with investors, they don't give a damn about how I view my core constituencies. They want to know how much I'm going to earn."
- "We'd lose the analyst in a minute if we don't talk about things you can put a number on. But we try to be as comprehensive as possible."
- "Our annual report is one page, we took out the kind of stuff you're looking for. It goes to what the Street wants. If you're delivering a stock price, the Street doesn't care."
- "Analysts have absolutely no patience for stakeholder issues."

Issue Summary: As noted above, the Funds' SPR disclosure request was designed to prompt a discussion by management not only of the important corporate constituents, but also the specific programs and policies that have been implemented within the company to encourage positive contributions from these constituents. The purpose in connecting this disclosure with the discussion of corporate strategy was to promote disclosure that helps investors better understand the broad range of policies and practices that a management team believes are critical to the long-term success of the enterprise. Product quality improvement programs, employee stock ownership programs, environmental initiatives, and occupational safety and health programs are all part of management's corporate constituent "balancing" responsibilities and it is important that shareowners are aware of these programs and how they contribute to the financial success of the corporation and its investors. The SPR called for in the Proposal was not intended to be a detailed discussion of the full range of programs undertaken by a corporation or of each of its policies relative to important constituents, but rather to provide management an opportunity to more broadly describe its strategy for long-term profitability, while noting the programs relative to important stakeholders.[8]

Corporate disclosure relative to important corporate constituents and their contributions to long-term corporate profitability is not common practice for one simple reason – the investment community comprised of Wall Street analysts and investors, both institutional and individual, does not demand it. In fact, they discourage companies from looking at other constituents. This is a key difference from Taft-Hartley funds: We believe companies must constantly balance the interests of important corporate constituents for the long-term good of the corporation, its owners, employees, communities and customers.

A senior executive at a major bank commented that our conversations were the first time an institutional investor had ever asked about the company's Community Reinvestment Act responsibilities and compliance programs. Another financial institution discussed a recently announced layoff and indicated that the company accepted an offer to buy its credit facility because it was the only bid proposal that included an agreement to hire the four hundred employees who worked at the credit facility. And while the banking executive believed this approach made sense to the company and the community, he was confident it wasn't information that investors would be interested in.

Most investors today look at companies as commodities, not as social systems, and near term stock price is often the full measure of a company's value. With this investment perspective dominating the market, issues regarding executive training initiatives, regulatory compliance programs, or employee stock ownership goals are seldom discussed in corporate disclosure documents. This reporting shortcoming, prompted by investor apathy or antipathy, further undermines owner support for programs that are critical to corporate success. In the absence of investor understanding and support for these programs, managers are encouraged to sacrifice many of these programs to meet investors' short-term stock price expectations.

Shareowner Issue # 2: Triennial Elections

> **Proposal Text:** Resolved, that the shareowners of the Company hereby request that the Board of Directors take the necessary steps to develop a new Company election system that provides for the election of the entire slate of Company Board of Director nominees at every third annual meeting of shareowners. The proposed new election system should be developed in conformity with state law, stock listing requirements, and Company bylaws and articles, and should be presented for shareowner approval at the next annual meeting of shareowners.

Proposal Background: The Funds' Triennial Election proposal ("Triennial Proposal") was the most controversial of the Proposals in that it went against the grain of recent shareowner advocacy for annual elections of corporate directors. The Triennial Proposal sought to raise a simple question: Would the election of an entire board for a three year term help insulate the board and management from short-term performance pressures and allow them to be more long-term oriented in carrying out their responsibilities as directors? Our interest was in examining whether directors could be encouraged to take a long-term perspective or resist a short-term orientation in their duties by eliminating annual director elections.

A primary focus of shareowner activism in recent years has been on the corporate board, with particular attention paid to the director election process. Board of director classification provides for the annual election of only a portion of the board, typically one-third of the directors, for multiple year terms, typically three years. The current alternative to a classified board is the annual election of the full board. Shareholder proposals calling for board declassification routinely receive majority votes reflecting strong shareowner support for full board annual elections. Proponents of full board annual elections argue that this election method maximizes director and management accountability to shareowners. Those corporations with classified boards counter that the staggered election of directors promotes board continuity and stability, fosters long-term commitments from new directors, and encourages a long-term corporate performance perspective. Most companies readily admit that a classified board also serves as a valuable anti-takeover tool in conjunction with other defensive measures, such as a shareholder rights plan.

The concept of a system of multi-year elections of an entire board has been advanced previously. Martin Lipton and Steven A. Rosenblum in their law review article entitled "A New System of Corporate Governance: The Quinquennial Election of Directors" is the most developed presentation of the concept.[9] Following on the heels of the hostile takeover activity of the 1980's, the authors advanced their "quinquennial system" designed to "make shareholders and managers think and act like long-term owners by combining the patient capital approach of Warren Buffett, the long-term monitoring approach of the Japanese and German ownership structures, and the financial incentives for managers of the LBO."[10] The centerpiece of the "quinquennial system," which included director independence and executive compensation reform initiatives, was the election of the full slate of corporate directors for five-year terms. The quinquennial annual meeting at which directors were elected was intended to provide for a close evaluation of a corporation's success in meeting the goals established in its long-term strategic plan, and outline the performance goals and strategy of the next five years. The Funds' motivation for proposing the Triennial Proposal closely parallels that of Lipton and Rosenblum: to promote governance formulations that realign the interests of corporate shareowners, managers, and other important corporate constituents, such as employees and communities, to promote the long-term health of the business enterprise.

Corporate Dialogue: The basic premise of the Triennial Proposal was that concurrent multi-year terms of office for all members of a board would encourage individual directors and boards to take a long-term perspective in establishing corporate goals and strategic plans to accomplish those performance goals. This premise and the mechanics of triennial elections were addressed in our discussions, but the conversations expanded beyond the narrow election term issue. We spent a good deal of time addressing the fundamental question of whether director elections, regardless of their frequency or the terms of office of elected nominees, have any effect on how directors approach their basic responsibilities to the corporation and shareowners. We also heard from the corporate representatives on what factors they believe contribute to "effective" boards and "effective" board members.

Corporate representatives clearly stated their belief that the length of director terms is not a factor that focuses directors, individually or collectively, on the long-term. The near unanimous position of the company representatives was that triennial elections of all of a company's directors, or any longer board term plan, would not influence the board's involvement in the strategic planning process or the time lines incorporated into corporate strategic plans. Only one senior official thought that a triennial election system would allow the board and management to better resist short-term investor pressure and extend the time horizons in the company's strategic plans.

In light of the constant corporate lament about the pressure of short-term shareowner expectations, the negative corporate reaction to the triennial election plan was surprising. The negative reaction was based in large measure on the view expressed by nearly all representatives that their directors and boards generally or "normally" bring a long-term perspective to their board duties and that market factors unrelated to directors' terms of office work against this long-term perspective. This "normal" long-term director and board orientation, it was argued, is the product of a variety of factors, including the long-term service commitment requested of most directors upon taking board positions (typically five years), individual board member qualifications, directors' concern about professional reputation, a nominee's knowledge of the company and its industry, and the working dynamic developed among board members and with the chief executive officer. So while the market's appetite for short-term stock value improvements can and frequently does have a powerful affect on a directors and a board's long-term orientation, an extension of director election terms is not the antidote.

There was strong agreement among the corporate representatives on the following points:

- Annual elections do not impede a good board's ability to focus on the long-term.
- Directors feel little or no pressure associated with director elections.

- Companies are very protective of their classified board election arrangements and feel that they help provide continuity in terms of execution of a company's long-term plans.
- Most companies believe that the long-term service commitment, typically five years, that they request of prospective directors is a key factor in instilling a long-term perspective in individual directors and boards generally.
- A director's personal knowledge of the company, its industry, his or her excitement about the job, board collegiality, and a strategic planning process that engages directors are all factors that contribute to a director and a board embracing a long-term perspective in terms of corporate goals and strategic plans.
- Annual elections, whether of the full slate or a class of directors, provide shareholders an opportunity to express their views on the directors, and they provide the company chair/CEO a framework for making necessary changes to the make-up of the board. A triennial system might present a possible "lock-up" effect reducing the flexibility of the company to change the mix of director characteristics in a rapidly changing business climate.
- Most institutional investors favor annual elections of directors and companies don't want to be perceived as "backtracking" on corporate governance.

The Triennial Election proposal was not designed to directly raise the issue of whether director elections are good accountability mechanisms for shareowners. The question of whether director elections are good motivators for directors to perform their jobs with diligence and competence is different from the question of the affect of director terms of office on the perspective a board brings to its strategic planning responsibilities. However, the issues became intertwined in our discussions with the corporate representatives. It is clear that director elections, be they for annual or multi-year terms, be they for full or partial slates, are not the source of anxiety or pressure for corporate directors. Numerous representatives from companies with classified boards claimed that it was common that board members were unaware of whether they were up for election in a given year. As several senior officers explained, most directors do not believe there is any threat to their duration in office other than how they are perceived by other directors. "Directors do not feel threatened. There isn't a sword of Damocles hanging over the board," noted one.

Issue Summary: It may be overly simplistic, but not necessarily wrong, to suggest that longer director election terms would not promote a long-term director or board perspective in formulating corporate strategy because director elections themselves are not meaningful director accountability mechanisms. Based on our conversations, if the proposed triennial election system was instituted, its impact on encouraging directors to advocate for a long-term corporate performance perspective or to resist short-term market forces would be negligible. A director's perspective on his or her duties is shaped by factors other than elections and possible election challenges. In the absence of an election system that threatens consequences for poor performance, other factors, including concern about professional reputation and legal liability, become the dominant factors motivating directors to pursue their responsibilities with diligence. And the market's performance expectations for a company are the powerful forces at work pushing against a steady commitment, embodied in corporate strategic plans, to growing long-term corporate value.

Our conversations with the corporate representatives on the triennial election issue highlighted the interrelationship among the various Proposals advanced. The lengthening of election terms for full director slates will promote good long-term goal setting and strategic planning only if corporate elections are set up to be meaningful referendums on long-term corporate performance. Accomplishing this end requires more then simply extending director terms of office. Shareowner patience is a necessary predicate. Opportunity for credible alternative viewpoints to be expressed within the context of the elections needs to be fostered. In today's market environment, with today's corporate governance practices, and today's ownership predilections, simply extending director election terms would have no practical effect in promoting a more constructive long-term view of corporate and shareowner value. Issues of investor patience, the democratization director elections, and the interplay among these issues are addressed in Proposal discussions below.

Shareowner Issue # 3: Shareowner Access to Proxy Statement

> **Proposal Text:** Resolved, that the shareholders of the Company hereby urge management to take the necessary steps to establish a shareholder right of access to the Company's proxy statement for the purpose of presenting a non-management candidate for election to the Board of Directors. The proxy statement access rights afforded to a qualifying shareholder or group of shareholders would allow for the advancement of the candidacy of a single non-management nominee to be added to the Company's board of directors. An individual shareholder or group of shareholders holding 2% of the Company's outstanding shares of common stock would be afforded this proxy statement access right. The Board is charged with the task of developing a system of shareholder access to the Company proxy statement to advance the candidacy of a non-management Board candidate that conforms to Company bylaws, articles of incorporation and state law.

Proposal Background: Shareowner participation in director nominations and election campaigns could potentially be a very powerful and effective component of the shareholder monitoring process. However, this potential has gone unrealized. Professor Bernard Black in his article "Agents Watching Agents" identified the following factors in the corporate manager's environment that influence his or her behavior: active shareowner monitoring, the corporate control market, the product market, the capital market, the labor market for corporate managers, incentive compensation arrangements, creditor monitoring, the risk of bankruptcy, fiduciary duties, and cultural norms of behavior.[11] Shareowner monitoring is identified as an important strand in the "web of imperfect constraints on corporate managers." The Funds' advocacy for greater shareowner rights to participate effectively in director nominations and elections derives from our view that shareowner monitoring, as opposed to the other accountability mechanisms, is the best method of manager accountability for promoting the attainment of long-term corporate performance goals and responsible corporate behavior.

The separation of corporate control from corporate ownership was brought about by the diffusion of stock ownership in American corporations beginning in the early 1900's. As a result, the power of professional corporate managers was enhanced, as mechanisms for shareowner monitoring of managers were rendered ineffective. Over the past two decades, shareowners have reasserted their interests within the corporation in response to periods of poor corporate and managerial performance. The hostile takeover activities of the 1980's and the takeover premiums they offered were powerful stimulants for shareowners to reassert their governance rights. Despite shareowner reengagement, there remain serious disincentives and impediments to shareowner utilization of the director nomination and election processes as means to address poor corporate performance. The director electoral process has not served as a practical mechanism for correcting corporate mismanagement on a regular basis.

In light of this reality, the Funds' Proxy Access Proposal advances a simple proposition: Make the director electoral process a more effective management monitoring mechanism for shareowners by facilitating shareowner access to the process. The Proxy Access Proposal proposes a limited access right for a large shareowner, a holder of 2% of the outstanding shares, or a group of smaller individual or institutional shareowners with a combined 2% holding, to nominate one non-management board nominee and to advance that nominee's candidacy in the company's proxy statement. The ownership qualification imposed on shareowners that seek to use the proxy access right places a reasonable limitation on the availability of the access right.

It is important to note that the proposed proxy access right is neither designed nor intended to promote election contests that would produce wholesale or disruptive change on a corporation's board. Rather, it is a narrow access right designed to allow a shareowner or group of shareowners with a significant investment in a company to advance the candidacy of a single new candidate for a board. The candidate would be proposed as an addition to the existing board, not as a replacement for any incumbent director or new management candidate. The candidacy would provide a means for shareowners to advance a different strategic perspective or bring new and different talents to the board of a company experiencing performance difficulties. The access right would eliminate many procedural and monitoring cost barriers that unnecessarily restrict positive shareowner participation in the electoral process and bring a healthy vibrancy to director elections.

Corporate Dialogue: Not surprisingly, the Proxy Access Proposal met with the most corporate resistance, both as a specific proposition and as a concept. The discussions with the corporate representatives, as well as the "no-action" letter requests submitted in response to the Proxy Access Proposal, addressed the mechanics of the access right. Many of the questions raised concerning the mechanics of the proxy access right, such as how many 2% shareowners could exercise the right in a given year, were logical questions given the lack of complete clarity in the language of the Proposal. The questions and "no-action" requests raised legitimate technical, legal, and implementation issues that would need to be addressed in an adopted access right. Despite these shortcomings, the Proxy Access Proposal did outline in broad, but clear terms, the concept of a limited shareowner access right to a company's proxy statement to advance a single new non-management candidate to be added to an existing board. In this regard, the Proposal facilitated a constructive discussion about the board of director nomination and election processes, and how responsible shareowners honestly interested in a company's long-term corporate performance might more effectively participate in these processes.

The principal non-technical arguments against creating a new shareowner proxy access right to nominate non-management board nominees, included the following: (1) Shareowners are not now exercising their existing rights under corporate law, company by-laws, and company election procedures to nominate non-management board candidates; (2) the access right may simply be a mechanism for the advancement of a narrow constituency candidate that does not represent the best long-term interests of the company, and (3) board functioning and collegiality could be harmed with the introduction of an "outside" candidate onto the board. These arguments against the Proxy Access Proposal provided a good framework for discussing the shortcomings of current board nomination rights and alternative steps to increasing shareowner participation in the director electoral process.

The discussions provided an opportunity for the Fund representatives to probe the present director nomination processes. Each company indicated that it had in place procedures, typically described in the company's proxy statement, for shareowners to submit the names of board candidates. The typical shareowner nomination process included an internal review of shareowner director nominees by a nominating committee or the full board followed by a formal recommendation for or against the candidacy. All of the companies, except three, revealed that they had never received a shareowner board nominee, and the three companies that had received nominations indicated that in each instance the nominee was self-nominated. Additional information regarding these candidates indicated that they were not credible board nominees. Additional inquiry by the Funds with a wider range of companies indicates that shareowner utilization of a company's director nomination procedures is indeed rare.

Shareowner non-utilization of director nomination rights as an argument against creating a limited proxy statement is on its face compelling, but in actuality it misses the point. Responsible long-term shareowners do not utilize the director nomination process for a variety of reasons. The submission of a board candidate or candidates to advance an alternative strategic vision for a company is seen as a complex and expensive proposition for a shareowner, even a large institutional holder. Shareowners clearly, and understandably, operate on the assumption that a corporate board or its nominating committee will reject an outside candidate who is advanced as an advocate for change. The costs and complexities of advocating for the election of a non-management candidate must be evaluated against the simpler alternative to sell. So in light of the daunting regulatory and financial burdens associated with a non-management board candidacy and the anticipated company rejection of a shareowner nominee, serious shareowners are not utilizing their right to develop and prosecute a limited board challenge. Further, the minimal amount of shareowner activism coordination among large institutional shareholders has allowed these cost hurdles to remain formidable and hindered efforts to develop a pool of well-qualified candidates to run as non-management board candidates.

All of the companies indicated that they would be very receptive to input from shareowners on director candidates, and pledged to give serious consideration to any candidate advanced by a responsible shareowner or group of shareowners. One corporate president commented, "If our largest shareholders felt more comfortable that they had more input into the board and the board still worked well with the shareholder candidate on it, we'd view that as a positive." Another chief executive recommended use of the existing nomination process before a performance problem develops: "Work the drum earlier." Several companies suggested meetings with senior management or outside directors to discuss performance issues and candidates as a healthy course of action prior to a director campaign. And while not inviting shareowner board nominees, nearly all the companies expressed frustration that other shareowners don't avail themselves of the opportunity to meet and discuss company strategy, philosophy and operations. One company that was experiencing ongoing performance difficulties recommended that an organized group of shareowners meet periodically with senior management and that the views expressed would "be dutifully reported to directors."

Issue Summary: The corporate representatives voiced clear concerns about the creation of a limited proxy statement access right for shareowners to advance a board candidate, yet also urged us and other shareowners to utilize existing director nomination processes. These two seemingly contradictory positions were advanced in good faith and simply reflect the corporations' desire to control the nomination and election processes. While corporate representatives stated that their companies would willingly consider shareowner proposed candidates and in appropriate circumstances include such nominees on a management slate, there is strong opposition to governance reforms that would diminish their effective control over the electoral process and the company proxy statement. A right of access for qualifying shareowners to a company's proxy statement to advance a non-management board candidate would dramatically reduce regulatory and costs hurdles that impede constructive shareowner use of the director electoral process and end effective corporate control of the process.

Advocacy for a meaningful form of proxy access for shareowners to advance alternative board candidates should continue. At the same time, it is important that activist shareowners exercise their director nomination rights and avail themselves of the nomination processes currently in place at most corporations. In order to advance credible alternative board candidates, activist shareowners will be required to commit time and resources that to date they may have been unwilling to commit. Strong candidate advocacy will require good coalition work among active owners. Performance benchmarks by which to judge the appropriateness of a board candidate advocacy campaign need to be developed. The challenges and demands facing targeted companies must be better understood, so that sound remedial action can be offered. Such activities will constructively challenge poorly performing companies and their boards, and build the foundation for expanding shareowner electoral rights so as to establish these electoral processes as effective and measured accountability mechanisms.

Shareowner Issue # 4: Stock Voting Rights Enhancement

Proposal Text: Resolved, that In order to promote long-term share ownership of the Company's common stock, the shareowners hereby request that the Board of Directors take the necessary steps in conformity with state corporation law, exchange listing requirements, and the Company's bylaws and articles to provide for an increase in the voting rights of those holders of the Company's common stock who hold their stock for an extended period of time. Specifically, the voting rights appreciation program should provide for a one-time doubling of the stock voting rights associated with a share of Company common stock that is held continuously by a shareowner for a period of five years.

Proposal Background: In concert with the overall purpose of the Proposals' governance reforms to promote good long-term corporate performance, the Voting Rights Enhancement Proposal ("Voting Rights Proposal") was designed to provide an incentive for shareowners to be patient long-term owners. The form of incentive is simple, enhanced voting rights. The Voting Rights Proposal suggests a one-time doubling of the voting rights associated with a company's common stock for those shareowners that hold the shares continuously for a period of five years. Over time, the voting rights appreciation program would put a higher percentage of the outstanding voting rights at a corporation in the hands of long-term shareowners. It is the Funds' belief that encouraging long-term corporate stockownership with enhanced voting rights will produce a more knowledgeable, involved, patient, and long-term oriented ownership base over time. More informed and patient shareowners would allow and even demand that boards and managements develop and implement strategies designed to enhance the long-term value of the corporation.

The enhanced voting rights for holders of corporate common stock prescribed by the Voting Rights Proposal are not contrary to the "one-share one-vote" principle that the Funds and other institutional shareowners have strongly advanced. The practice of establishing disparate voting rights for different classes of common stock for control purposes is contrary to basic fairness and democratic principles. The nontransferable enhanced voting rights afforded under the Voting Rights Proposal would be available to all owners of a corporation's common stock on an equal basis.

Corporate Dialogue: There was general philosophical agreement with the Voting Rights Proposal's goal of promoting long-term oriented patient capital. Many company representatives stated their belief that enhanced voting rights for long-term owners would better align those shareowners with the goal of building long-term corporate value. Most agreed that in a very basic sense over time the voting rights appreciation plan would operate to put a higher degree of voting influence in the hands of owners who cared about voting rights in the first place. And many believed that even a marginal shift in voting power to long-term oriented shareowners would have practical effects. "It would help reinforce a long-term perspective by our Board," commented one corporate official.

While there was a general consensus among the company representatives that the concept of enhanced voting rights made sense, there was an even stronger consensus among the corporate representatives that the implementation and bookkeeping complexities associated with tracking eligibility for enhanced voting rights would outweigh any intended benefits. "Nightmarish" is how one corporate secretary described the task of determining continuous ownership among record owners and associated beneficial holders for purposes of assigning enhanced rights. Accurately reporting to shareowners and the market on the status of voting rights within a corporation was seen as an enormous challenge. The cost-benefit analysis on the enhanced voting rights program was clear: modest benefits for considerable costs.

A key factor that prompted submission of the Proposal was our sense based on broad market research that current stock trading and ownership turnover patterns at most large public corporations do not encourage a long-term management perspective. Shareowner patience, or more accurately the lack thereof, and the value of shareowner patience as relates to corporate strategic planning time lines were explored. "We have institutional day traders here, millions of shares are traded, with some shareholders in and out of the stock three times in one week," lamented one official. And as to the trading behavior of the wider universe of investors, many companies expressed deep frustration and concerns about growing impatience on the part of investors. "I love foreign investors who sit tight. But as Europe becomes more alert to the game, they'll trade more. Long-term ownership is not the American way. Enhanced voting rights would cause institutional investors to scream," commented a senior corporate official.

The "American way" referenced highlights the fact that many shareowners view corporate stocks as financial commodities to be traded rather than as ownership stakes in ongoing businesses. The trading activities of shareowners reflect the different goals, interests, and investment styles of investors. There has been considerable and thoughtful debate on the topic of whether shareholders should be considered "owners" of the corporations in which they invest, or simply investors in a company's securities. Whether or not one feels that an individual or institutional investor that owns corporate stock is an "owner" of that company, it is clear that the significant percent of shareowners that hold their shares in a given company for hours, days, or weeks, are not focused on the long-term prospects of the company. Most companies indicated that individual shareowners generally tended to hold for longer terms than institutional investors, and they feared a strong negative reaction to enhanced voting rights from institutional investors with relatively high ownership turnover rates.

The implications of the "revolving door ownership" propensities of investors on management and corporate behavior have been studied and debated. Our conversations provided anecdotal evidence that the decision-making of corporate managers and boards is often directly influenced by the short-term ownership mentality evidenced by high levels of ownership turnover. One official described in clear terms how the market's short-term perspective towards the company, as reflected by the high turnover of shareowners, dissuaded management from pursuing a major investment that the board believed had great long-term potential. The attitude expressed by most company representatives was that "despite" the market's short-term ownership propensities, their boards and managers as stewards of the corporations were compelled to implement strategic plans designed to enhance long-term corporate value. With that said, many indicated that they are regularly forced to capitulate to short-term investment pressure.

Issue Summary: The potential mixed messages and implementation nightmares associated with a doubling of the voting rights of a corporation's long-term shareowners were felt to outweigh the positive aspects of a more patient ownership base. The common ground established on the importance of promoting a management focus on enhancing long-term corporate value suggests that various aspects of the patient capital issue should be jointly explored. The issue of investor patience is most often examined from the perspective of the investor, with considerable study of the relative merits of active and passive investment strategies on portfolio value. The issue of patient capital needs to be examined from the perspective of the corporation as well. Most corporate representatives intuitively felt that if a greater percentage of their investors held ownership for periods of years, instead of days, weeks or months, a long-term strategic orientation would be encouraged and promoted. It is critically important that we better understand the behavioral effects of corporate ownership turnover on corporate executives and corporate boards, as well as the impact of high shareowner turnover on the time horizons of company strategic plans.

It is important that investor patience is not equated with investor passivity. Long-term patient investors need to complement investment patience with ownership activism designed to ensure proper management accountability and encourage a long-term corporate strategic orientation. Activism strategies designed to add value to corporations and investment portfolios are the perfect complement to a passive and patient investment strategies. Creating governance mechanisms that encourage ownership patience and equipping patient owners with tools to advocate for necessary corporate change are the goals of the Voting Rights and related Proposals.

Shareowner Issue # 5: Executive Compensation

Proposal Text (Year 2000 Proposal): Resolved, that the shareowners of the Company request that the Board of Directors of the Company, in conjunction with its Compensation Committee, design and implement an executive compensation program for senior management that will focus management on the need to maximize the Company's long-term wealth-generating capacity. The executive compensation program should establish specific qualitative and quantitative measurements of senior management's success in leading the Company as it seeks to provide superior long-term performance for its shareowners and other important corporate constituents.

Proposal Text (Year 2001 Proposal): Resolved, that the shareowners of the Company hereby request that the Company's Board of Directors take the necessary steps to establish a performance-based senior executive compensation system. To demonstrate that such steps have been taken, we request that the Compensation Committee Report included in the company's annual report to shareowners identify specific performance criteria and explain why they have been selected; the specific target level that must be achieved to satisfy that performance criteria; and rank each performance factor in order of importance, as well as identify the weight attached to each factor.

Proposal Background: Executive compensation excesses of the 1980s prompted shareowners to demand executive compensation schemes that tied executive compensation to corporate and manager "performance." Over the past decade, a rising stock market combined with less than demanding plan performance criteria have resulted in new pay excesses. Executive compensation plans with weak performance benchmarks have produced the façade of a system of "pay-for-performance," while in reality these plans have created a "pay-for-ordinary performance" regime that all too often rewards peer or market level performance with extraordinary compensation. Executive compensation figures for the decade tell the story of excess: Executive pay between 1990 and 2000 (before adjusting for inflation) rose 571% according to a recent study entitled "Executive Excess 2001" by the Institute for Policy Studies and United for a Fair Economy.[12] Chief executive officer pay continued to rise in 2000 despite losses suffered by all the major stock indexes. In order to put the decade-long climb of executive pay in perspective it is important to note that over the same time period the S&P 500 index rose 300%, corporate profits rose 114%, and worker pay outpaced inflation over the period by 5%. The decade of executive pay excess is most dramatically highlighted by the fact that the minimum wage would today stand at $25.50 an hour if it had increased from the 1990 level of $3.80 at the same rate as executive pay.

Against this backdrop, the Funds advanced an executive compensation proposal in each of the 2000 and 2001 proxy seasons ("Compensation Proposals"). It should be noted that the corporations that received the Compensation Proposals were not companies judged to have particularly poor executive compensation plans or to have done a poor job reporting to shareowners on the particulars of their executive compensation plans. The Compensation Proposals were part of the broader initiative to engage these companies in a comprehensive governance dialogue.

The Compensation Proposals' focus is on two related corporate executive compensation concepts: (1) Executive compensation is an important tool to focus corporate management on corporate value maximization goals, and (2) executive compensation plans must be performance based, utilizing clearly defined and reported qualitative and quantitative performance measures. The impetus for the Compensation Proposals was the dearth of information in shareowner disclosure documents describing the nexus between executive compensation policies and practices and a company's long-term strategic goals. While compensation plans may be designed to focus management on long-term corporate value enhancement, disclosure on the interplay between executive compensation and long-term corporate goals is very superficial in most instances. This deficiency highlights the broader issue of poor compensation disclosure that threatens the integrity of compensation programs.

Corporate Dialogue: The dialogue prompted by the Compensation Proposals presented an opportunity to examine and challenge executive compensation practices in terms of their effectiveness in focusing management on long-term goal achievement and rewarding measured extraordinary performance. The discussions included philosophical debates about what constitutes "fair" or "excessive" compensation, as well as mind-numbing elaborations on specific compensation performance benchmarks and relationship between different performance criteria and various components of executive compensation. It's what we asked for.

There was strong agreement that executive compensation policies and practices are important tools to focus management on long-term corporate value enhancement goals. Differences arose over whether examined plans properly aligned management interests with the attainment of long-term corporate goals, and when there was alignment whether it was clearly explained for shareowners in disclosure documents. At numerous companies, thorough explanations of executive compensation plan performance criteria and corporate strategic goals revealed executive compensation to be an important driver of the efforts to achieve long-term corporate performance goals. Issues and theories on the proper mix and weightings of salary, annual incentive and long-term compensation awards to create or reinforce a long-term management perspective were discussed, along with stock option award levels, option vesting periods, option indexing to peer group and market performance, and annual bonus levels. There were a range of compensation formula advocated, reflecting different compensation philosophies, industry perspectives, and compensation goals. The common thread running through the discussions was the recognition of the important role of executive compensation in focusing management on the goal of enhancing long-term corporate value.

The thorough explanations of generally logical compensation plans that the meetings generated contrast to what shareowners generally read in corporate disclosure documents. Compensation committee reports almost universally state that the goals of a company's executive compensation plan are as follows: "The Company's compensation programs are designed to retain and motivate its executive officers and other key personnel and align their interests with the interests of the shareholders." Executive retention and motivation, and the alignment of executive and shareowner interests are important and obvious goals, but these statements reveal very little. The documents of the companies engaged for the most part did not provide clear explanations of how company compensation policies and practices "align" executive interests with those of the shareowners and other important constituents and precisely how they focus management on achieving long-term corporate strategic goals. The corporate representatives acknowledged the value of more detailed reporting of executive compensation practices and policies and their relation to the attainment of long-term corporate strategic goals, and they expressed openness to revising future compensation committee reports to achieve this end.

The issue of performance-based executive compensation plans and better shareowner reporting of the particulars of such plans generated a good exchange of ideas and opinions among meeting participants. We voiced concerns about overly generous compensation plans and vague reporting on the range of performance criteria and the relative importance of each performance criteria within the design of a plan. The company representatives indicated that most companies have gone to great lengths to ensure that their compensation programs provide challenging performance benchmarks and that compensation awards are commensurate with the benefits shareowners receive. The company representatives also defended their compensation plan disclosure on grounds that greater specificity in reporting might put them at a competitive disadvantage. Specifically, companies expressed a reticence to disclose exact performance benchmarks for both the quantitative and qualitative factors used in their compensation formula.

Notwithstanding the legitimate concerns about disclosing performance benchmarks that might provide competitors unfair advantages, executive compensation disclosure that conceals rather than reveals compensation essentials is all too common. Attempting to decipher the goals, the logic, or the particulars of a company's executive compensation program is often a daunting challenge. Securities regulations require "clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, or paid to the named executive officers."[13] Item 402 (k) calls for a board compensation report on executive compensation, and states clearly what the report should contain:

> Discussion is required of the compensation committee's bases for the CEO's compensation reported for the last completed fiscal year, including the factors and criteria upon which the CEO's compensation was based. The committee shall include a specific discussion of the relationship of the registrant's performance to the CEO's compensation for the last completed fiscal year, describing each measure of the registrant's performance, whether qualitative or quantitative, on which the CEO's compensation is based.

A number of the company representatives noted the exception to the Item 402 reporting requirements contained in the Instructions to Item 402(k) that allows for nondisclosure of target levels of performance with respect to specific qualitative or quantitative performance factors when disclosure would have adverse effects on the company's competitive position. Further, several companies expressed the view that the regulation's requirement to thoroughly describe qualitative performance measures utilized in determining compensation levels promotes a "least amount of pain" gravitation back to quantitative measures.

It is our view that the regulation and its exception do not justify failing to clearly describe quantitative and qualitative performance criteria, provide shareowners an understanding of the relative importance of each performance measure, or adequately describe the targeted balance among the various short-term and long-term components (salary, annual bonus, and long-term incentives) of a company's executive compensation plan. Better compensation reporting does not mean more complex compensation reporting, and there was sincere commitment from a number of companies to rethink their present reporting and explore more informative straightforward presentations of their compensation programs. Several of the companies shared draft text of executive compensation reports prepared for upcoming proxy statements that were responsive to the Compensation Proposals' call for greater reporting detail with regards to performance benchmarks.

Issue Summary: We believe that the discussions with corporate officials on the executive compensation issues raised essentially validated the basic premises of the Compensation Proposals. Company representatives acknowledged that the company in-house compensation experts that participated in the meetings to describe the specifics and nuances of company plans were not there just for our benefit. If executive compensation plans are to play the role of focusing corporate managers on achieving long-term corporate goals and they are to be based on fair and understood performance criteria, it is critically important that compensation reporting improve dramatically. What we heard is that there is a clear consensus that executive compensation should focus managers on achieving long-term corporate strategic goals and that executive compensation should be performance-based. Further, notwithstanding concerns about disclosing information that might put a company at a competitive disadvantage, there is agreement that compensation disclosure should be as understandable and informative as possible.

There will undoubtedly continue to be areas of considerable disagreement in the compensation area as well. The magnitude of some executive compensation awards will be challenged. The importance of qualitative performance factors, such as health and safety and environmental performance measures, in executive compensation formula will be debated. The levels of stock option grants, the inclusiveness of option plans, and the generosity of severance plans will inevitably continue to be points of contention. These debates and related challenges are healthy and vital to the ongoing process of improving executive compensation practices.

Shareowner Issue # 6: Board of Director and Board Committee Independence

Proposal Text: Resolved, that the company's board of directors adopts a policy requiring that at least two-thirds of the members of the board be "independent" directors. And that the company board take the necessary steps to ensure that each of the audit, nominating and executive compensation committees was composed entirely of independent directors. For purposes of the proposal, a director is not considered "independent" if he or she is currently or during the past five years has been:

- Employed by the company or an affiliate in an executive capacity;
- Employed by a firm that is one of the Company's paid advisors or consultants;
- Employed by a significant customer or supplier;
- Employed by a tax-exempt organization that receives significant contributions from the Company;
- Paid by the Company pursuant to any personal services contract with the Company;
- Serving in an executive capacity or as a director of a corporation on which the Company's chairman or chief executive officer is a board member; or
- Related to a member of management of the Company.

Proposal Background: Shareowner activism in support of board of director independence has been the single most important governance initiative undertaken over the past decade. An impetus for this advocacy has been the considerable losses suffered by shareowners and other stakeholders that can be attributed to the lack of board vigilance over senior management and corporate strategic initiatives. Confronted with corporate boards composed largely of senior company executives, individuals with business dealings with the company, and those with personal or business associations with the company's chief executive officer, shareowners have advocated for change.

The advocacy for board independence comports with the appropriate shareowner role in constructing an effective system of corporate governance. Rather than seeking to undertake the inappropriate task of micro-managing corporations, institutional and individual shareowners have focused on important issues related to director qualifications, nominations, and elections. To this end, a widely accepted definition of an "independent" director has evolved and respected corporate governance organizations and institutional activists have established board and board committee independence standards. Those definitions and standards are reflected in the text of the board independence proposals ("Independence Proposals") described above and advanced by the Funds.

Shareowner advocacy on the issues of director and board committee independence has produced positive results. Simple measures of the progress are the increasing levels of board independence and "independent" directors on board audit, compensation and nominating committees. A survey undertaken by the Funds of the level of board and board committee independence indicates solid improvement on both fronts. The Funds reviewed the year 2001 proxy statements of four hundred twenty-six (426) of the Standard and Poor 500 index of companies in their collective investment portfolios to determine levels of board independence and key committee independence (Appendix C). Levels of board independence and audit, nominating and executive compensation committee independence were determined for each of the companies by identifying the "independent" directors on the board and key board committees. An average independence figure was then determined for each board and committee across the entire universe of companies examined. Our survey indicates that the average S&P 500 company board is seventy-two percent (72%) independent, exceeding the two-thirds independence standard employed by most institutional investors. Board audit and compensation committees are on average ninety-three percent (93%) independent, while nominating committees have a considerably lower sixty-seven percent (67%) independence rating. Committee composition was further examined to determine what percent of the S&P 500 company board committees meet the one hundred percent (100%) independence standard established by most institutions for audit, compensation and nominating committees. Seventy-six percent (76%) of the audit committees, eighty-four percent (84%) of the executive compensation committees, and only forty-five percent (45%) of the nominating committees are entirely composed of "independent" directors. It should be noted that eighty-nine (89) of the surveyed companies did not have standing nominating committees.

Corporate Dialogue: The dialogue with the corporate representatives on board of director independence revealed the issue to be the area of greatest agreement among Fund and company representatives. The significant improvement in the degree of board and board committee independence is due both to the advocacy of shareowners and the positive response from most responsible corporations to the call for more director independence. Corporations have placed a high priority on board independence in order to enhance board and corporate performance and to protect the integrity of board actions. While differences of opinion were expressed on the definition of an "independent" director and the necessity for complete independence on key board committees, the differences are relatively minor in nature and we anticipate will be resolved by continued constructive discourse on the issue.

The Funds have been strong advocates for board and board committee independence, but at the same time we believe that a director's independence does not necessarily make him or her a good director. Likewise, a board that meets the independence standards established by shareowner advocates is not necessarily an effective board. There are a variety of other attributes and qualifications board members must have in order to be effective contributors to corporations and the most interesting aspect of the dialogue on director independence addressed how well directors, individually and collectively, understand the role of the corporation in society and their roles in the governance of the corporation. This discussion went beyond a listing of the qualifications companies seek in board candidates, and touched upon whether the boards understand the goals of the corporation and their role in orienting the company on a path to maximize long-term corporate value. Further, we discussed whether boards understand the daily task of "balancing" multiple constituent interests mentioned by many corporate executives in the pursuit of corporate long-term goals and discussed in the Strategic Plan Report Proposal section.

From our perspective, it was encouraging to hear that most companies believe that their board members understand their individual roles and the role of the board in the overall corporate governance process. Further, most felt that their directors generally embrace a long-term perspective in executing their responsibilities of establishing an executive leadership team, participating in the development and implementation of a corporate strategic plan, and responding to market and other changes that significantly effect the corporation. But as noted in the Strategic Plan Report and Triennial Election sections above, many company representatives lamented the fact that the short-term demands of the market often place considerable pressure on their boards to move off their long-term orientations.

Issue Summary: Board of director independence is an important factor in protecting the integrity of a corporation's governance processes and the actions it takes. For these reasons, it is encouraging that solid progress has been made in improving the independence of corporate boards and board committees. This progress is the product of strong shareowner advocacy and a generally positive corporate response. However, a continued improvement in the number of "independent" directors on boards will not necessarily translate into better performing boards and corporations. It will be important that shareowner advocacy as relates to the composition and actions of the board be more comprehensive going forward. In the dialogue on the independence issue, company representatives provided insight into the workings of their boards, including board internal dynamics, the nature of board-management relationships, and director understanding of corporate strategic goals. The information obtained in these discussions provided a clearer and broader picture of the role of the board.

Unfortunately, information like that discussed with the company representatives is not routinely provided shareowners to complement the narrow director biographical information provided in company proxy statements. Audit and compensation committee reporting has begun to provide shareowners insight into the processes and the goals of director actions, but more information should be provided to better enable shareowners to evaluate board performance and not simply the qualifications of individual directors. More comprehensive disclosure that describes the board's role in a company's strategy development process and includes a "state of the company" statement by the board would be a very constructive development and contribute substantively to the shareowner and corporate effort to establish effective boards.

VI. Corporate Dialogue Summary & Fund Follow-Up Activities

The Funds expended considerable time and resources to engage in this series of corporate governance discussions with a significant group of companies across a diverse group of industries. Unlike many shareowner-corporation encounters, these meetings provided an opportunity to have a general philosophical exchange on issues of corporate governance and debate specific governance issues in a non-adversarial environment. The meetings helped identify broad common ground on certain issues, while highlighting basic differences on others. Many frustrations were shared, particularly the "Street's short-term performance pressure," that can prompt responsive actions that threaten a company's long-term health. The face-to-face dialogue provided the Funds an opportunity to identify their significant collective ownership that is often masked behind investment managers' and plan custodians' record ownership of the Funds' shares. The meetings allowed us to relate the interests of the millions of men and women who are participants and beneficiaries of the Funds in promoting the long-term success of the corporations. Corporate representatives were able to vent about various aspects of shareowner behavior in a constructive manner.

It is important to note that most of the differences of opinion on the topics raised by the Proposals were based on differing judgments as to the relative costs and benefits of a given proposed reform and not on the Proposals' underlying goals. The differences were significant on issues such as the Proxy Access Proposal, but narrower on issues such as executive compensation disclosure and board independence. Most importantly, there was broad common ground established on the fundamental concept that the interests of corporations, investors, important corporate constituents, and our nation's economy are well served by corporate ownership and governance practices that encourage corporations to pursue long-term corporate value maximization.

The Funds will attempt to continue the constructive dialogue begun with the discussions on the Proposals. Our responsible activism will take a variety of forms, but its focus will continue to be on advancing the interests of Fund participants and beneficiaries through the promotion of reasoned governance principles designed to promote long-term corporate success. To that end, the following activism will be undertaken:

1. White Paper Circulation: The Funds' will circulate the white paper to those companies that participated in the dialogue on the Proposals, as well as to other interested companies. It is our hope to develop multi-company multi-investor forums for continued dialogue on the issues raised in the Proposals, as well as on new issues and challenges confronting corporations and shareowners.

2. Director Strategy Role Disclosure: The Funds' will undertake advocacy in support of enhanced shareowner reporting on the role of the board of directors in corporate strategy development. As shareowner representatives, board members must be directed engaged in the process of developing and monitoring implementation of a company's strategic plans. A shareowner proposal requesting disclosure of directors' roles and responsibilities in formulating corporate strategic goals and plans will be submitted both formally and informally to corporations.

3. "CommonSense" Executive Compensation Principles: The Funds will formulate and advocate for a set of executive compensation principles that will guide the evaluation of corporate compensation programs. The CommonSense principles will advance a "performance-for-pay" compensation system that promotes well-defined qualitative and quantitative performance measures and clear and concise shareowner disclosure. In addition to the use of shareowner proposals to encourage adoption of CommonSense principles, the principles will be incorporated in compensation studies prepared by the Funds on targeted groups of companies selected by industry and geographical location.

4. Director Nominations: The Funds, individually and in concert with other institutional investors, will explore the utilization of board nomination processes at companies that are experiencing long-term performance problems. These activities will include defining targeting criteria and guidelines, and developing processes for the effective use of shareowners' director nomination rights in a "non-contest" context.

5. Investment Manager Dialogue: The Funds have initiated what will be an ongoing and expanding dialogue with investment managers on a wide range of governance and ownership issues. These discussions will examine corporate ownership concepts, corporate governance considerations in investment decision-making, and investment time horizons within in the context of long-term corporate performance goals.

6. Independent Director Advocacy: The Funds will continue to advocate for greater levels of director independence at those companies that do not meet the independent board and board committees widely accepted among the ownership and corporate communities. Additionally, annual measurements of director independence levels will be developed to track progress on this important issue.

NOTES

1. 29 CFR 2509.94-2 – Interpretive bulletin relating to written statements of investment policy, including proxy voting policy or guidelines.

2. 17 CFR section 240.14a-8 (Shareholder Proposals)

3. Rule 14a-8(j), 17 CFR section 240.14a-8(j).

4. CVS (Feb. 1, 2000) 2000 SEC No-Act. LEXIS 138.

5. CVS (Feb. 1, 2000) 2000 SEC No-Act. LEXIS 106.

6. CVS (Jan. 31, 2000) 2000 SEC No-Act. LEXIS 136.

7. Price Waterhouse Coopers, Corporate Governance and the Board – What Works Best, (2000).

8. Baxter International Corporation, Baxter International Inc. Sustainability Report 2000, (2000). We recommend for corporate and shareowner review and consideration the "sustainability reports" prepared by companies on the Dow Jones Sustainability Index (www.sustainability-index.com). A good example of corporate reporting that captures the essence of the SPR is the current Baxter International Inc. Sustainability Report 2000 (www.baxter.com). The Baxter International Sustainability Report describes how each corporate policy, program and practice contributes to the goal of good long-term performance. The opening letter in the report from the company chair and chief executive officer explains the concept of sustainability and how long-term corporate success is dependent upon a commitment to programs that address the needs of all the corporation's stakeholders. The challenge of "balancing" the interests of the core corporate constituencies in pursuit of long-term corporate value that was repeatedly cited by the company representatives is directly addressed in Mr. Kraemer's letter and throughout the report. On the topic of corporate governance, the reports states: "Baxter International Inc.'s board of directors and executive management team take very seriously their duty to act in a manner that balances the needs of all key stakeholders. To that end, Baxter's board recognizes the importance of good corporate governance as a means of addressing the needs of employees, communities, customers and shareholders."

9. *See* Martin Lipton and Steven A. Rosenblum, *A New System of Corporate Governance: The Quinquinnial Election of Directors*, 58 U. Chicago L. Rev. 187 (1991).

10. *See id*. at 224.

11. Bernard S. Black, Agents Watching Agents, *The Promise of Institutional Investor Voice*, 39 UCLA Law Review 401 (1992).

12. Institute for Policy Studies and United for a Fair Economy, Executive Excess 2001 – Layoffs, Tax Rebates, The Gender Gap, (2001).

13. 17 CFR section 229.402 (Executive Compensation).

APPENDIX A

No-Action Letter Requests (Proxy Season 2000)			
Company	**Proponent**	**Proposal(s)**	**No-action Grounds***
PECO Energy	SMWIA	Enhanced Voting Rights	14a-8(i)(3) 14a-8(i)(6)
	LIUNA & UBC	Triennial Elections	14a-8(i)(3) 14a-8(i)(6)
	IBEW	Proxy Access	14a-8(i)(8) 14a-8(i)(7) 14a-8(i)(9) 14a-8(i)(3)
Texaco	Ironworkers	Proxy Access	14a-8(i)(2) 14a-8(i)(8) 14a-8(i)(3)
	UBC	Triennial Elections	14a-8(i)(2)
	IBEW	Strategic Plan Report	14a-8(i)(7)
Bank One	UBC	Executive Compensation	14a-8(i)(10)
	IBEW	Triennial Elections	14a-8(i)(8)
	LIUNA	Proxy Access	14a-8(i)(3) 14a-8(i)(2)
Halliburton	LIUNA	Triennial Elections	14a-8(i)(2)
	IBEW	Proxy Access	14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6) 14a-8(i)(8)
Milacron	IBEW	Strategic Plan Report	14a-8(i)(7)
Chevron	UBC	Strategic Plan Report	14a-8(b)(2)(i)

			14a-8(i)(7) 14a-8(i)(3)
	IBEW	Triennial Elections	14a-8(i)(2)
	LIUNA	Proxy Access	14a-8(i)(8) 14a-8(i)(3)
TRW	LIUNA	Proxy Access	14a-8(i)(8) 14a-8(i)(2) 14a-8(i)(1) 14a-8(i)(3)
El Paso Energy	UBC	Triennial Elections	14a-8(i)(6) 14a-8(i)(2)
	SMWIA	Proxy Access	14a-8(i)(2) 14a-8(i)(10)
Tricon Global Restaurants	Ironworkers	Proxy Access	14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6) 14a-8(i)(8)
	UBC	Strategic Plan Report	14a-8(b) 14a-8(f) 14a-8(i)(3) 14a-8(i)(7) 14a-8(i)(10)
The Williams Companies	IBEW	Proxy Access	14a-8(i)(8) 14a-8(i)(3)
	LIUNA	Triennial Elections	14a-8(i)(2) 14a-8(i)(1)
Dow Chemical Company	IBEW	Enhanced Voting	14a-8(i)(6) 14a-8(i)(3)
	LIUNA	Proxy Access	14a-8(i)(8) 14a-8(i)(3) 14a-8(i)(6)
	SMWIA	Strategic Plan Report	14a-8(i)(7) 14a-8(i)(10) 14a-8(i)(3)

			14a-8(i)(6)
	UBC	Triennial Elections	14a-8(i)(2) 14a-8(i)(6) 14a-8(i)(3) 14a-8(i)(8)
DuPont	IBEW	Strategic Plan Report	14a-8(i)(3) 14a-8(i)(7)
	UBC	Triennial Elections	no-action letter not sought
	SMWIA	Proxy Access	14a-8(i)(3) 14a-8(i)(8) 14a-8(i)(2)
Fort James Corporation	IBEW	Proxy Access	14a-8(i)(2) 14a-8(i)(3)
Wal-Mart	SMWIA	Executive Compensation	14a-8(b)(2) 14a-8(c) 14a-8(i)(3) 14a-8(i)(10)
	UBC	Enhanced Voting	14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6) 14a-8(i)(8)
	IBEW	Triennial Elections	14a-8(i)(10) 14a-8(i)(3) 14a-9
	LIUNA	Proxy Access	14a-9 14a-8(i)(3) 14a-8(i)(8)
Hilton Hotels	UBC	Proxy Access	14a-8(i)(8) 14a-8(i)(8)
	IBEW	Strategic Plan Report	14a-8(i)(7) 14a-8(i)(3)
Lowe’s	SMWIA	Triennial Elections	14a-8(i)(2)
	Ironworkers	Executive Compensation	14a-8(i)(10)
	UBC	Proxy Access	14a-8(i)(2)

			14a-8(i)(3) 14a-8(i)(8)
	IBEW	Voting Rights	14a-8(i)(2)
Wisconsin Energy	UBC	Proxy Access	14a-8(b) and (f)
J.C. Penney	UBC	Triennial Elections	14a-8(i)(6) 14a-8(i)(2)
	LIUNA	Proxy Access	14a-8(i)(7) 14a-8(i)(3) 14a-8(i)(8) 14a-8(i)(2)
	IBEW	Strategic Plan Report	14a-8(i)(7) 14a-8(i)(3)
Toys "R" Us	LIUNA	Proxy Access	14a-8(i)(8)
K-Mart	IBEW	Proxy Access	14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6) 14a-8(i)(8)
CVS, Inc.	UBC	Triennial Elections	14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6)
	IBEW	Proxy Access	14-8(c) 14a-8(i)(1) 14a-8(i)(2) 14a-8(i)(3) 14a-8(i)(6) 14a-8(i)(8)
	LIUNA	Strategic Plan Report	14a-8(i)(7)

*** Grounds for omitting shareholder proposals under Rule 14a-8**

14a-8(i)(1): Improper under state law

14a-8(i)(2): Violation of law - if the proposal would, if implemented, cause the company to violate any state, federal, or foreign law to which it is subject.

14a-8(i)(3): Violation of proxy rules - If the proposal or supporting statement is contrary to any of the Commission's proxy rules, including Section 14a-9 which prohibits materially false and misleading statements in proxy soliciting material.

14a-8(i)(4): Personal grievance or special interest - If the proposal relates to the redress of a personal grievance against the company.

14a-8(i)(5): Relevance - If the proposal relates to operations which account for less than 5% of the company's total assets at the end of its most recent fiscal year.

14a-8(i)(6): Absence of power/authority - If the company would lack the power or authority to implement the proposal.

14a-8(i)(7): Management functions - If the proposal deals with a matter relating to the company's ordinary business.

14a-8(i)(8): Relates to elections - If the proposal relates to an election for membership on the company's board of directors.

14a-8(i)(9): Conflicts with the company's proposal - If the proposal directly conflicts with one of the company's own proposals to be submitted to shareholders at the same meeting.

14a-8(i)(10): Substantially implemented - If the company has already substantially implemented the proposal.

14a-8(i)(11): Duplication - If the proposal substantially duplicates another proposal previously submitted to the company by another proponent.

14a-8(i)(12): Resubmissions - If the proposal deals with substantially duplicates another proposal previously submitted to the company with the previous 5 years and the proposal did not receive minimal shareholder support (3% if one vote in 5 years - 6% if two votes within 5 years, and 10% if 3 votes with 5 years).

14a-8(i)(13): Specific amount of dividend - If the proposal relates to specific amounts of cash or stock dividends.

APPENDIX B

Company	Company Representatives	Funds Represented
1. CINERGY	Jim Rodgers – Chr. & CEO Jerome A. Venneman – Assoc. Gen. Counsel & Asst. Secretary Jerry W. Liggett – V.P., Human Resource Strategy R. Brent Gambill, Senior Corp. Counsel Board Members from Corp. Gov. Cmte.	UBC, LIUNA, IBEW, PROXY MONITOR & CINCINNATI WORKER-OWNER COUNCIL ("WOC") REPRESENTATIVES
2. MEAD CORP	Jerome F. Tatar – Chairman of the Board., CEO & President Sue O'Donnell – V.P., General Counsel, and Secretary Mark F. Pomerleau – Director, Investor Relations	LIUNA, IBEW, IRON, IUOE, UBC, PROXY MONITOR
3. CINCINNATI FINANCIAL	John Schiff – Chairman of the Board & CEO General Counsel Investor Relations Corporate Secretary	LIUNA, IBEW,UBC, PROXY MONITOR, WOC REPS.
4. PPG INDUSTRIES	Michael Hanzel – Gen. Counsel & Corp. Sec. Doug Atkinson – Director, Investor Relations Dave McLean – Legal Department	LIUNA, IBEW, UBC, PROXY MONITOR & LOCAL TRADES
5. PNC BANCORP	Jim Rohr – Chief Executive Officer and President George Davidson – PNC Board Member Helen Pudlin – General Counsel Tom Moore – Corporate Secretary Jack Robinson – Manager, Labor Relations	LIUNA, IBEW, UBC, PROXY MONITOR & LOCAL TRADES
6. KEYCORP	Henry Meyer - President Steven N. Bulluch – Senior V.P. & Senior Managing Counsel Lee Irving – Exec. V.P., Chief Accounting Officer Thomas C. Stevens – Senior Exec. V.P., General Counsel and Secretary Paul J. Skowronek – Client Manager – Key Asset Mgmt.	LIUNA, IBEW, UBC, PROXY MONITOR, & LOCAL TRADES

7. TRW	Joseph T.Gorman – Chairman of the Board, CEO and President William B. Lawrence – Executive V.P., General Counsel and Secretary	LIUNA, IBEW, UBC, PROXY MONITOR
8. GENERAL DYNAMICS	Nicholas Chabraja- Chairman of the Board & CEO David Savner - General Counsel Judy Samali – Jenner & Block	LIUNA, IRON, UBC SMWIA, IBEW & PROXY MONITOR
9. HOME DEPOT	Kelly R. Caffarelli – Corporate Counsel Lawrence A. Smith – Senior V.P., Legal Kim Shreckengost – V.P. Office of CEO	IRON, IBEW, LIUNA, SMWIA, IUOE, UBC & PROXY MONITOR
10. DUPONT CORP	Louise Bruce Lancaster – Director, Corporate Governance, Secretary & Corporate Counsel Mary Bowler - Investor Relations Rep.	UBC, LIUNA, IBEW, SMWIA, IRON & PROXY MONITOR
11. TEXACO CORP.	Michael H. Rudy – Secretary Elizabeth P. Smith – V.P., Investor Relations & Shareholder Services	IRON, IBEW, UBC, LIUNA, SMWIA & PROXY MONITOR
12. TRICON GLOBAL RESTS.	John P. Daly – Corporate Counsel Christian L. Campbell – Senior V.P., General Counsel and Corporate Secretary Lynn A. Tyson – V.P., Investor Relations	LIUNA, SMWIA, IBEW, UBC
13. FORT JAMES	Clifford A. Cuthins, IV – Senior V.P., General Counsel and Corporate Secretary Cynthia V. Bailey – V.P. Assoc. General Counsel Celeste C. Gunter – V.P., Investor Relations Susan O. Self – Asst. Corp. Sec.	LIUNA, IBEW, UBC, SMWIA
14. CHEVRON	Hillman Walker- General Counsel Anna Perez – General Manager Communications Peter Trueblood- Director, Investor Relations	SMWIA, LIUNA, IBEW, UBC
15. ENRON	Mark E. Koenig – Exec. V.P., Investor Relations Rebecca Carter - Senior V.P. Board Communications	IBEW, UBC, LIUNA, SMWIA
16. ENTERGY CORP	E. Renae Conley – V.P. Investor Relations Christopher T. Screen – Asst. Secretary	IBEW, UBC, LIUNA, SMWIA
17. BANK ONE CORPORATION	Sherman Goldberg – V.P. & General Counsel Jay Gould – Director, Investor Relations	LIUNA, IBEW, UBC, PROXY MONITOR, MARCO ASSOC.
18. MGIC CORP	Michael Lauer – Chief Financial Officer Jeff Lane – General Counsel	LIUNA, IBEW, UBC, PROXY MONITOR, MARCO ASSOC.,

	Jim McGinnis – Director, Investor Relations	LOCAL TRADES
19. MILACRON CORP.	Hugh C. O'Donnell – V.P., General Counsel and Secretary Al Beaupre, Director, Corporate Communications	LIUNA, UBC, IBEW WOC REPS.
20. KROGER CORP	Bruce M. Gack – V.P. and Asst. General Counsel	UBC, IBEW, LIUNA, WOC REPS.
21. GENERAL ELECTRIC	John D. Obie – Vice-Chair of Bd & Executive Officer Robert E. Healing - Corporate Counsel Dennis W. Rocheleau- Manager, Labor Relations	LIUNA, SMWIA, UBC, IBEW, PROXY MONITOR
22. INTERNATIONAL PAPER	James W. Guedry- V.P. & Corporate Secretary Carol S. Tutundgy – V.P., Investor Relations	LIUNA, SMWIA, UBC, IBEW, PROXY MONITOR
23. J.C. PENNEY	Charles R. Lotter – Exec. V.P., General Counsel & Secretary Jeffrey J. Vawrinek – Assoc. General Counsel	LIUNA, UBC, IBEW
24. SOUTHERN COMPANY	Tommy Chisholm – V.P., Assoc. General Counsel & Secretary Allen L. Leverett – V.P. and Treasurer E. Ray Dunn – Director, Shareholder Services	LIUNA, UBC, IBEW, IRON
25. WAL-MART	Jay Fitzsimmons – V.P. Finance Allison Garrett – Senior Attorney	IRON, SMWIA, LIUNA, IBEW, PROXY MONITOR
26. H.J. HEINZ	Ted Smyth – Senior V.P. Corporate and Gov't Affairs Leonard A. Cullo, Jr. – Asst. Gen. Counsel John(Jack) Runkel – V.P., Investor Relations	LIUNA, IRON, UBC, SMWIA, WOC REPS
27. CVS CORP	Zenon Lankowski – General Counsel Louis L. Goldberg – Davis, Polok & Wardwell	LIUNA, SMWIA, UBC, IBEW, AFL-CIO
28. LOWE'S	Stephen A. Hellrung, Senior VP, General Counsel & Secretary	LIUNA, UBC, IBEW, IRON, SMWIA
29. PROCTER & GAMBLE	Terry Overbey – Sec. & Assoc. General Counsel Gretchen W. Price – Vice President & Treasurer Wendy W. Jacques – Assoc. Dir., Corporate Communications	IRON, LIUNA, UBC, WOC REPS.

30. WISCONSIN ENERGY	Richard Abdoo – Chair & CEO George Warderberg – Vice Chair Thomas Fehring – Corp. Sec. Scott Patalski –Human Resources Paul Donovan - CFO	UBC, IBEW, SMWIA, PROXY MONITOR, & WOC REPS.
31. THE SHERWIN-WILLIAMS	Christopher M. Connor – Chair & CEO Louis E. Stellato – VP & General Counsel Conway G. Ivy – VP – Planning & Development Stephen J. Perisutti – Senior Attorney	UBC, IBEW, SMWIA, LIUNA, WOC REPS.
32. EXXON-MOBIL	T. Peter Townsend – VP & Secretary R.B. Reichelt – Manager, Compensation and Executive Programs	UBC, LIUNA, SMWIA

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
156	Abbot Labs	85%	100%	100%	100%
79	ADC Telecommunications	63%	33%	100%	75%
357	Adobe Systems	57%	100%	100%	\
112	Advanced Micro Devices	75%	100%	100%	80%
358	AES Corp.	50%	50%	100%	\
157	Aetna Inc. (New)	83%	100%	100%	100%
47	AFLAC Inc.	77%	100%	100%	66%
80	Agilent Technologies	90%	100%	100%	75%
359	Air Products & Chemicals	90%	100%	100%	\
11	Alberto-Culver	54%	75%	100%	33%
81	Albertson's	58%	75%	100%	75%
78	Alcan Inc.	67%	80%	75%	75%
158	Alcoa Inc.	90%	100%	100%	100%
159	Allegheny Energy Inc.	87%	100%	100%	100%
151	Allegheny Technologies	75%	100%	80%	100%
109	Allergan, Inc.	66%	80%	83%	80%
160	Allied Waste Industries	83%	100%	100%	100%
161	Allstate Corp.	92%	100%	100%	100%
162	ALLTEL Corp.	79%	100%	100%	100%
163	Altera Corp.	75%	100%	100%	100%
164	Ambac Financial Group	71%	100%	100%	100%
165	Amerada Hess	57%	100%	100%	100%
166	Ameren Corp.	78%	100%	100%	100%
167	American Electric Power	71%	100%	100%	100%
82	American Express	80%	100%	100%	75%
64	American General	75%	75%	83%	67%
21	American Greetings Cl A	66%	100%	75%	50%
113	American Home Products	73%	100%	100%	80%
360	American International Group	50%	60%	100%	\
168	Amgen	91%	100%	100%	100%
169	AMR Corp.	60%	100%	100%	100%
155	AmSouth Bancorporation	86%	100%	83%	100%
361	Anadarko Petroleum	75%	100%	100%	\
24	Analog Devices	57%	100%	100%	50%
170	Andrew Corp.	66%	100%	100%	100%
83	Anheuser-Busch	47%	80%	100%	75%
84	AOL Time Warner Inc.	56%	100%	100%	75%
171	Aon Corp.	82%	100%	100%	100%
7	Apache Corp.	42%	75%	40%	25%
424	Apple Computer	43%	66%	\	\
362	Applied Materials	80%	100%	100%	\
172	Applied Micro Circuits	66%	100%	100%	100%
173	Archer-Daniels Midland	71%	100%	100%	100%
174	Ashland Inc.	91%	100%	100%	100%
175	AT&T Corp.	73%	100%	100%	100%
59	Autodesk, Inc.	75%	100%	67%	67%
16	Automatic Data Processing	64%	100%	100%	40%
4	AutoZone Inc.	55%	100%	100%	0%
114	Avery Dennison Corp.	66%	100%	100%	80%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
176	Avon Products	70%	75%	100%	100%
177	Baker Hughes	90%	100%	100%	100%
178	Ball Corp.	80%	100%	100%	100%
77	Bank of America Corp.	76%	100%	67%	75%
179	Bank One Corp.	92%	100%	100%	100%
85	Bard (C.R.) Inc.	86%	100%	100%	75%
180	Barrick Gold Corp.	50%	100%	100%	100%
181	Bausch & Lomb	80%	100%	100%	100%
182	Baxter International Inc.	91%	100%	100%	100%
6	BB&T Corporation	60%	75%	100%	20%
363	Bear Stearns Cos.	64%	100%	100%	\
86	Becton, Dickinson	83%	100%	100%	75%
425	Bed Bath & Beyond	17%	33%	\	\
183	BellSouth	85%	75%	100%	100%
184	Bemis Company	80%	100%	100%	100%
17	Best Buy Co. Inc.	55%	100%	100%	40%
106	Biogen, Inc.	82%	100%	80%	80%
60	Biomet, Inc.	54%	100%	67%	67%
185	Black & Decker Corp.	88%	100%	100%	100%
186	Block (H&R)	70%	100%	100%	100%
364	BMC Software	86%	100%	100%	\
187	Boeing Company	82%	100%	100%	100%
188	Boise Cascade	93%	100%	100%	100%
115	Boston Scientific	44%	100%	100%	80%
189	Bristol-Myers Squibb	82%	100%	100%	100%
365	Broadcom Corporation	40%	50%	100%	\
366	BroadVision Inc.	84%	100%	100%	\
5	Brown-Forman Corp.	30%	66%	100%	0%
190	Brunswick Corp.	83%	100%	100%	100%
367	Burlington Northern Santa Fe	84%	100%	100%	\
191	Burlington Resources	78%	75%	100%	100%
3	Cabletron Systems	25%	100%	50%	0%
368	Calpine Corp.	63%	100%	100%	\
192	Campbell Soup	93%	100%	100%	100%
369	Capital One Financial	72%	100%	100%	\
193	Cardinal Health, Inc.	86%	100%	100%	100%
1	Carnival Corp.	43%	100%	25%	0%
194	Caterpillar Inc.	93%	100%	100%	100%
195	Cendant Corporation	65%	100%	100%	100%
25	Centex Corp.	70%	100%	100%	50%
196	CenturyTel, Inc.	42%	85%	100%	100%
370	Charles Schwab	70%	100%	100%	\
46	Charter One Financial	60%	83%	85%	66%
197	Chevron Corp.	78%	100%	100%	100%
38	Chrion Corp.	70%	100%	100%	60%
55	Chubb Corp.	69%	75%	100%	67%
198	CIGNA Corp.	90%	100%	100%	100%
26	Cincinnati Financial	54%	100%	100%	50%
354	CINergy Corp.	75%	80%	75%	\

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
371	Cintas Corporation	57%	100%	100%	\
199	Circuit City Group	73%	100%	100%	100%
65	Cisco Systems	83%	100%	100%	67%
200	Citigroup Inc.	75%	83%	100%	100%
372	Citrix Systems	71%	100%	100%	\
341	Clear Channel Communications	54%	100%	43%	\
201	Clorox Co.	91%	100%	100%	100%
202	CMS Energy	90%	100%	100%	100%
62	Coca Cola Co.	50%	100%	75%	67%
22	Coca-Cola Enterprises	62%	100%	75%	50%
203	Colgate-Palmolive	86%	100%	100%	100%
148	Comcast	67%	83%	75%	100%
204	Comerica Inc.	91%	100%	100%	100%
205	COMPAQ Computer	87%	100%	100%	100%
206	Computer Associates International	63%	100%	100%	100%
373	Computer Sciences Corp.	60%	66%	100%	\
374	Compuware Corp.	63%	100%	100%	\
53	Comverse Technology	33%	100%	67%	67%
375	ConAgra Foods Inc.	80%	100%	100%	\
376	Concord EFS Inc.	33%	50%	100%	\
207	Conexant Systems	80%	100%	100%	100%
377	Conoco Inc.	89%	100%	100%	\
378	Conseco Inc.	38%	100%	100%	\
208	Constellation Energy Group	72%	100%	100%	100%
48	Convergys Corp.	90%	100%	100%	66%
209	Cooper Industries	91%	100%	100%	100%
210	Cooper Tire & Rubber	80%	100%	100%	100%
12	Corning Inc.	60%	100%	100%	33%
342	Costco Wholesale Corp.	45%	33%	50%	\
146	Countrywide Credit Industries	70%	100%	66%	100%
379	Crane Company	70%	75%	100%	\
129	CSX Corp.	85%	100%	100%	83%
144	Cummins Inc.	80%	100%	100%	89%
105	CVS Corp.	63%	100%	75%	80%
380	Dana Corp.	78%	100%	100%	\
355	Danaher Corp.	38%	33%	75%	\
154	Deere & Co.	83%	100%	83%	100%
211	Delphi Automotive System	23%	100%	100%	100%
212	Delta Air Lines	91%	100%	100%	100%
213	Deluxe Corp.	80%	100%	100%	100%
381	Dillard Inc.	42%	100%	100%	\
214	Dominion Resources	84%	100%	100%	100%
382	Dover Corp.	67%	60%	100%	\
139	Dow Chemical	66%	100%	100%	85%
74	Dow Jones & Co.	66%	100%	100%	71%
45	DTE Energy Co.	54%	100%	50%	66%
215	Du Pont E I	92%	100%	100%	100%
383	Duke Energy	84%	100%	100%	\
216	Dynegy Inc.	82%	100%	100%	100%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
217	Eastman Chemical	91%	100%	100%	100%
218	Eastman Kodak	91%	100%	100%	100%
384	Eaton Corp.	90%	100%	100%	\
137	Ecolab Inc.	84%	100%	100%	84%
116	Edison International	77%	100%	100%	80%
117	El Paso Corp.	91%	100%	100%	80%
66	Electronic Data Systems	60%	67%	100%	67%
338	EMC Corp.	29%	33%	33%	\
385	Emerson Electric	68%	75%	100%	\
386	Engelhard Corp.	75%	100%	100%	\
67	Enron Corp.	64%	83%	100%	67%
387	EOG Resources	71%	100%	100%	\
349	Equifax Inc.	64%	100%	67%	\
130	Exxon Mobil Corp.	67%	83%	100%	83%
219	Fannie Mae	62%	100%	100%	100%
220	Federated Dept. Stores	72%	100%	100%	100%
388	Fifth Third Bancorp	76%	100%	100%	\
389	First Data	60%	100%	100%	\
143	First Union Corp.	86%	100%	100%	88%
149	FirstEnergy Corp.	72%	100%	75%	100%
221	Fiserv Inc.	62%	100%	100%	100%
128	FleetBoston Financial	65%	100%	83%	83%
222	Fluor Corp	57%	100%	100%	100%
87	FMC Corp.	73%	100%	100%	75%
44	Ford Motor Co.	64%	80%	100%	64%
390	Forest Laboratories	57%	67%	100%	\
223	Fortune Brands, Inc.	82%	100%	100%	100%
347	Franklin Resources Inc.	44%	100%	66%	\
49	Gannett Co.	85%	100%	100%	66%
75	Gap (The)	50%	100%	100%	71%
18	General Dynamics	40%	50%	50%	50%
37	General Electric	58%	75%	67%	60%
107	General Motors	67%	100%	80%	80%
339	Genuine Parts	55%	80%	33%	\
224	Georgia-Pacific Group	92%	100%	100%	100%
131	Gillette Co.	66%	100%	100%	83%
225	Golden West Financial	55%	100%	100%	100%
226	Goodrich Corporation	91%	100%	100%	100%
134	Goodyear Tire & Rubber	82%	100%	100%	83%
227	GPU Inc.	89%	100%	100%	100%
228	Grainger (W.W.) Inc.	80%	100%	100%	100%
118	Great Lakes Chemical	89%	100%	100%	80%
88	Guidant Corp.	77%	100%	100%	75%
89	Halliburton Co.	85%	100%	100%	75%
391	Harrah's Entertainment	55%	80%	100%	\
50	Hartford Financial Services	60%	75%	100%	66%
90	Hasbro Inc.	69%	100%	100%	75%
229	HEALTHSOUTH Corp.	67%	100%	100%	100%
230	Hercules, Inc.	92%	100%	100%	100%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
91	Hershey Foods	78%	100%	100%	75%
119	Hewlett-Packard	66%	75%	100%	80%
231	Hilton Hotels	58%	100%	100%	100%
92	Home Depot	75%	80%	100%	75%
232	Household International	93%	100%	100%	100%
51	Humana Inc.	62%	100%	100%	66%
392	Huntington Bancshares	73%	100%	100%	\
39	Illinois Tool Works	70%	83%	100%	60%
233	IMS Health Inc.	78%	100%	100%	100%
234	Inco, Ltd.	83%	100%	100%	100%
393	Ingersoll-Rand	89%	100%	100%	\
235	Intel Corp.	73%	100%	100%	100%
236	International Business Machines	80%	100%	100%	100%
35	International Flavors & Fragrances	40%	66%	50%	60%
237	International Paper Co.	85%	100%	100%	100%
238	Interpublic Group	56%	100%	100%	100%
394	Jabil Circuit	43%	67%	100%	\
239	Johnson & Johnson	73%	100%	100%	100%
240	KB Home	70%	100%	100%	100%
241	Kellogg Co.	91%	100%	100%	100%
111	Kerr-McGee	82%	100%	90%	80%
242	KeyCorp	82%	100%	100%	100%
243	KeySpan	86%	100%	100%	100%
244	Kimberly-Clark	62%	100%	100%	100%
395	Kinder Morgan, Inc.	80%	100%	100%	\
344	King Pharmaceuticals	56%	100%	56%	\
245	Kmart	90%	100%	100%	100%
246	Knight-Ridder Inc.	67%	67%	100%	100%
120	Kohl's Corp.	50%	100%	100%	80%
247	Kroger Co.	81%	80%	100%	100%
15	Leggett & Platt	50%	86%	100%	33%
27	Lehman Brothers Holdings	75%	100%	100%	50%
248	Lexmark International Inc.	83%	100%	100%	100%
249	Lilly (Eli) & Co.	75%	100%	100%	100%
250	Lincoln National	90%	100%	100%	100%
251	Liz Claiborne, Inc.	90%	100%	100%	100%
252	Lockheed Martin Corp.	75%	100%	100%	100%
426	Loews Corp.	30%	66%	\	\
13	Louisiana Pacific	67%	100%	100%	33%
253	Lowe's Companies	90%	100%	100%	100%
396	LSI Logic	85%	100%	100%	\
254	Lucent Technologies	83%	100%	100%	100%
397	Manor Care Inc.	60%	100%	100%	\
54	Marriot International (New)	50%	100%	80%	67%
398	Marsh & McLennan	56%	100%	100%	\
255	Mattel, Inc.	91%	100%	100%	100%
256	May Department Stores	72%	100%	100%	100%
257	Maytag Corp.	73%	80%	100%	100%
56	MBIA Inc.	60%	75%	100%	67%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
36	MBNA Corp.	44%	75%	60%	60%
28	McDonald's Corp.	62%	100%	100%	50%
258	McGraw-Hill	80%	100%	100%	100%
259	McKesson HBOC Inc.	82%	100%	100%	100%
145	Mead Corp.	81%	100%	80%	90%
399	MedImmune Inc.	56%	100%	100%	\
260	Mellon Financial Corp.	69%	100%	100%	100%
261	Merck & Co.	76%	75%	100%	100%
40	MetLife Inc.	57%	100%	100%	60%
262	Millipore Corp.	89%	100%	100%	100%
263	Minnesota Mining & Manufacturing	80%	100%	100%	100%
264	Morgan Stanley, Dean Witter	80%	100%	100%	100%
265	Motorola Inc.	77%	100%	100%	100%
400	Nabors Industries	70%	100%	100%	\
266	National City Corp.	94%	100%	100%	100%
267	Navistar International	83%	100%	100%	100%
93	NCR Corp.	88%	100%	100%	75%
57	New York Times Cl A	64%	100%	100%	67%
23	Newell Rubbermaid Inc.	73%	100%	75%	50%
268	Newmont Mining	73%	80%	100%	100%
2	NEXTEL Communications	22%	50%	33%	0%
269	Niagara Mohawk Holdings Inc.	69%	100%	100%	100%
270	NICOR Inc.	91%	100%	100%	100%
271	Noble Drilling Corp.	72%	100%	100%	100%
121	Nordstrom	66%	100%	100%	80%
343	Norfolk Southern Corp.	56%	83%	50%	\
272	Nortel Networks Holding Co.	70%	100%	100%	100%
401	Northern Trust Corp.	86%	100%	100%	\
273	Northrup Grumman Corp.	73%	80%	100%	100%
274	Novell Inc.	75%	100%	100%	100%
34	Nucor Corp.	57%	100%	100%	57%
150	Occidental Petroleum	64%	100%	75%	100%
275	Office Depot	73%	100%	100%	100%
276	Omnicom Group	59%	100%	100%	100%
132	ONEOK Inc.	81%	87%	100%	83%
10	PACCAR Inc.	60%	75%	75%	33%
277	Pactiv Corporation	83%	100%	100%	100%
402	Parametric Technology	66%	66%	100%	\
278	Penney (J.C.)	90%	100%	100%	100%
279	Peoples Energy	77%	100%	100%	100%
353	Pepsi Bottling Group	45%	100%	71%	\
403	PepsiCo Inc.	79%	100%	100%	\
280	PerkingElmer, Inc.	90%	100%	100%	100%
135	Pfizer, Inc.	79%	100%	100%	83%
281	PG&E Corp.	70%	80%	100%	100%
29	Pharmacia Corp.	67%	75%	100%	50%
282	Phelps Dodge	80%	100%	100%	100%
76	Phillip Morris	77%	100%	100%	71%
283	Phillips Petroleum	90%	100%	100%	100%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
345	Pinnacle West Capital	67%	100%	60%	\
284	Pitney-Bowes	91%	100%	100%	100%
285	Placer Dome Inc.	92%	100%	100%	100%
404	Power-One Inc.	80%	100%	100%	\
286	PPG Industries	90%	100%	100%	100%
287	PPL Corporation	67%	75%	100%	100%
94	Praxair, Inc.	89%	100%	100%	75%
133	Procter & Gamble	78%	83%	100%	83%
288	Progress Energy, Inc.	85%	86%	100%	100%
405	Progressive Corp.	82%	100%	100%	\
350	Providian Financial Corp.	60%	75%	67%	\
289	Public Services Enterprise	88%	100%	100%	100%
290	Pulte Homes, Inc.	78%	100%	100%	100%
406	Qlogic Corp.	67%	67%	100%	\
291	Quaker Oats	88%	100%	100%	100%
292	QUALCOMM Inc.	61%	66%	100%	100%
407	Quintiles Transnational	66%	100%	100%	\
58	Qwest Communications International	64%	75%	60%	67%
127	RadioShack Corp.	67%	60%	80%	83%
293	Ralston-Ralston Purina	83%	100%	100%	100%
356	Raytheon Co.	75%	100%	80%	\
122	Reebok International	67%	100%	100%	80%
408	Regions Financial Corp.	77%	67%	100%	\
294	Reliant Energy	90%	100%	100%	100%
61	Robert Half International	50%	67%	67%	67%
295	Rockwell Collins	86%	100%	100%	100%
296	Rockwell International	90%	100%	100%	100%
138	Rohm & Haas	73%	75%	80%	85%
30	Rowan Companies	33%	100%	100%	50%
297	Ryder System	70%	100%	100%	100%
409	Sabre Holdings Corporation	88%	100%	100%	\
298	SAFECO Corp.	80%	80%	100%	100%
346	Safeway Inc.	33%	100%	60%	\
410	Sanmina Corp.	58%	100%	100%	\
73	Sara Lee Corp.	65%	86%	83%	71%
299	SBC Communications Inc.	86%	89%	100%	100%
300	Schering-Plough	73%	100%	100%	100%
31	Schlumberger Ltd.	75%	100%	100%	50%
301	Sealed Air Corp. (New)	87%	100%	100%	100%
302	Sears, Roebuck & Co.	90%	100%	100%	100%
95	Sempra Energy	83%	100%	100%	75%
32	Sherwin-Williams	64%	100%	100%	50%
411	Siebel Systems, Inc.	63%	67%	100%	\
303	Sigma-Aldrich	88%	100%	100%	100%
68	Snap-On Inc.	82%	100%	100%	67%
52	Solectron Corp.	80%	100%	100%	66%
304	Southern Co.	80%	100%	100%	100%
412	SouthTrust Corp.	67%	100%	100%	\
413	Southwest Airlines	89%	100%	100%	\

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
305	Sprint Corp. FON Group	66%	100%	100%	100%
306	St. Jude Medical	57%	100%	100%	100%
123	St. Paul Companies	93%	100%	100%	80%
307	Stanley Works	88%	100%	100%	100%
96	Staples Inc.	76%	100%	100%	75%
414	Starbucks Corp.	56%	67%	100%	\
69	Starwood Hotels & Resorts	82%	100%	100%	67%
41	State Street Corp.	72%	100%	100%	60%
348	Stryker Corp.	57%	75%	66%	\
147	Sun Microsystems	75%	100%	67%	100%
308	Sunoco Inc.	85%	83%	100%	100%
33	SunTrust Banks	80%	100%	100%	50%
309	Supervalu Inc.	84%	100%	100%	100%
415	Symbol Technologies	63%	100%	100%	\
351	Synovus Financial	65%	100%	67%	\
97	Sysco Corp.	62%	89%	100%	75%
98	T. Rowe Price Associates	38%	100%	100%	75%
310	Target Corp.	90%	100%	100%	100%
311	Tektronix Inc.	80%	100%	100%	100%
70	Tellabs, Inc.	56%	100%	100%	67%
152	Temple-Inland	66%	60%	80%	100%
99	Tenet Healthcare Corp.	80%	100%	100%	75%
153	Teradyne, Inc.	80%	100%	80%	100%
312	Texaco Inc.	83%	83%	100%	100%
313	Texas Instruments	89%	100%	100%	100%
314	Textron Inc.	86%	100%	100%	100%
63	Thermo Electron	67%	100%	75%	67%
315	Tiffany & Co.	57%	100%	100%	100%
416	Timken Co.	58%	75%	100%	\
316	TJX Companies Inc.	70%	100%	100%	100%
417	TMP Worldwide	50%	100%	100%	\
43	Torchmark Corp.	60%	100%	100%	62%
317	Tosco Corp.	80%	100%	100%	100%
100	Toys R Us Inc.	77%	100%	100%	75%
101	Transocean Sedco Forex	75%	100%	100%	75%
19	Tribune Co.	58%	80%	50%	50%
124	TRICON Global Restaurant	83%	100%	100%	80%
318	TRW Inc.	84%	100%	100%	100%
319	Tupperware Corp.	90%	100%	100%	100%
320	Tyco International	78%	100%	100%	100%
418	U.S. Bancorp	92%	100%	100%	\
20	Unilever N.V.	38%	38%	67%	50%
108	Union Pacific	70%	75%	80%	80%
419	Union Planters	67%	100%	100%	\
321	Unisys Corp.	90%	100%	100%	100%
42	United Health Group Inc.	58%	75%	100%	60%
322	United Technologies	82%	100%	100%	100%
352	Univision Communications	50%	67%	67%	\
323	Unocal Corp.	80%	100%	100%	100%

S&P 500 Board and Committee Independence

	Company	Board	Audit	Compensation	Nominating
324	UNUMProvident Corp.	92%	100%	100%	100%
325	USA Education Inc.	88%	100%	100%	100%
326	UST Inc.	88%	100%	100%	100%
141	USX-Marathon Group	64%	100%	100%	86%
140	USX-U.S. Steel Group	64%	100%	100%	86%
327	V.F. Corp.	92%	100%	100%	100%
420	Veritas Software	50%	100%	100%	\
14	Viacom Inc.	50%	86%	100%	33%
328	Visteon Corp.	84%	100%	100%	100%
421	Vitesse Semiconductor	83%	100%	100%	\
329	Vulvan Materials	89%	100%	100%	100%
330	Wachovia Corp.	94%	100%	100%	100%
331	Walgreen Co.	70%	100%	100%	100%
332	Wal-Mart Stores	46%	75%	100%	100%
110	Walt Disney Co.	56%	67%	83%	80%
142	Washington Mutual, Inc.	88%	100%	100%	87%
333	Waste Management (New)	89%	100%	100%	100%
422	Watson Pharmaceuticals	71%	100%	100%	\
9	WellPoint Health Network	63%	67%	50%	33%
72	Wells Fargo & Co. (New)	61%	88%	57%	71%
102	Wendy's International	53%	80%	100%	75%
125	Westvaco Corp.	66%	71%	100%	80%
334	Weyerhaeuser Corp.	92%	100%	100%	100%
335	Whirlpool Corp.	83%	100%	100%	100%
423	Willamette Industries	67%	75%	100%	\
136	Williams Companies	86%	100%	100%	83%
8	Winn-Dixie	56%	80%	75%	25%
103	WorldCom Inc. - WorldCom Group	58%	100%	100%	75%
104	Worthington Inc.	72%	100%	100%	75%
336	Wrigley (Wm) Jr.	75%	100%	100%	100%
337	Xcel Energy Inc.	86%	100%	100%	100%
126	Xerox Corp.	63%	100%	100%	80%
71	Xilinx Inc.	50%	67%	100%	67%
340	Yahoo! Inc.	28%	66%	33%	\
427	Citizens Communications				
428	Harley-Davidson				
429	Stilwell Financial				
430	Thomas & Betts				
431	TXU Corp.				
	*Average Percentage:	72%	93%	93%	67%

\ indicates that the Company has no Nominating Committee.

1. Total companies included in this analysis: 426
2. Total companies with Audit committees: 426
3. Total companies with Compensation committees: 337
4. Total companies with Nominating committees: 423

S&P 500 Board and Committee Independence

Company	Board	Audit	Compensation	Nominating

* Average Percentages are based on companies where information is available and where committee is present