

FINAL TRANSCRIPT

Thomson StreetEventsSM

****ACC - ISS and the Upcoming Proxy Season**

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PRESENTATION

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Hi, this is Tina Van Dam, and I want to welcome all of you to the ACC Corporate and Securities Law Committee webcast. We're very fortunate to have two special guests today with us from Institutional Shareholder Services. But before I introduce our speakers, I'd like to give you two e-mail addresses for sending in any questions, and you can do this at any time during the webcast that the questions occur to you.

My e-mail address is T, as in Tom, S as in Sam, Van Dam, V as in Victor, A-N, D as in dog, A-M as in mother at dow.com - tsvandam@dow.com. And we also will be providing the e-mail address of Howard Klein, and his e-mail is H, F as in Frank, K as in Kite, law, at cox.net, hsklaw@cox.net. So, please send any questions to both of those e-mail addresses, since the firewalls, we wanted to make sure that they came through. That's why we're providing two.

So, our speakers today are Patrick McGurn, who is Executive Vice President of Institutional Shareholder Services. Pat is a graduate of Duke University and the Georgetown University Law Center. He serves on the advisory board of the National Association of Corporate Directors. Previously, he was with Investor Responsibility Research Center, IRRC, and also with the United Shareholders Association.

Along with Pat today, we have Martha Carter, who is Senior Vice President and Director of U.S. Research for ISS. Martha joined ISS in 2002. Prior to that, she served as director of listing qualifications for NASDAQ. Martha holds a PhD in finance from George Washington University and an MBA in finance from the Horton School, University of Pennsylvania. Her undergraduate degrees are in mathematics and French, from Purdue.

So, with those brief introductions, welcome, Pat and Martha, and I'll turn the program over to you. Oh, I should ask our technical people whether or not the slides that have been provided by ISS are available to our participants.

Okay, well, Pat and Martha, I'm not sure whether the slides are there, so with that, I'll turn the program over.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, we'll go ahead and refer to the slides in case that some people can bring them up, but we can also again make them available, I'm sure, if you can, after the session if people can't get them.

I'm going to start off today by talking about some of the broad proxy voting and corporate governance trends we believe will dominate the 2006 proxy season and frankly go well beyond that to really impact the debate over the next decade, I think. After this introduction, then Martha will weigh in with a discussion of our policy-setting process, including the roundtable series that we began doing this year on a number of contentious issues. And she'll also run through some high-level reviews of the most significant changes that we're making to our proxy voting policies for 2006. And then we hope to get your e-mail questions at the end.

In that regard, we would ask that the questions really pertain to the broad trends and policies, rather than being company-specific fact patterns, because we'll just put those offline anyway, so if you can keep the big picture out there when you start asking questions.

Just to dive into the issues, we've been talking about the corporate governance debate in terms of a crossroad in recent years. We're at the post-Enron, post-stocks kind of crossroads right now, and the question is, what sort of issues will shareholders be looking at, and where will the corporate governance debate go at this point in time? And so I'm going to run over about seven issues briefly for you that let you know really not only what these crossroads are, but which fork in the road investors seem to be taking for the 2006 proxy season, at least.

I think the first issue is whether we're really at the end of this market reform era. I think with Chairman William Donaldson leaving at the SEC, a lot of people felt that we were going to see a period of retrenchment on the regulatory front, or even a period of really a deregulatory urge taking hold at the commission. And Chris Cox's first 100 days as Chairman have really proven that the claims of kind of this retrenchment were unfounded.

I think even though we've seen a significant changeover in the makeup of the commission over the last several months, it's clear that the SEC has not in general retreated on issues like 404, mutual fund governance or hedge fund registration, and in fact I think one of the seminal issues really out there, and one we can point to in this regard, is the SEC's decision under Cox to stick with the Financial Accounting Standards Board in their decision to implement option expensing more broadly.

More significantly, what we've seen during the first 100 days from Cox is actually a momentum on a variety of issues that were even a fairly low priority, or much lower priority, under Donaldson. At the top of the list and in the news today, certainly, given Chairman Cox's recent statements, are executive compensation disclosure. We expect in January that the SEC will be out with a whole new proposal related to revamping the executive compensation disclosure regime that's been in place since '92, '93, and as part of that, they've clearly indicated that they're going to address some reforms that investors have been calling for and that we're likely to see during proxy season, such as tally sheet disclosure of executive compensation.

Perhaps more significantly over the long run, they've also introduced this concept of Internet-based proxy solicitation, and while this holds out the prospects of substantial savings for issuers in the transmission of their proxy materials, it also entails a very significant drop in the cost for dissident shareholders for going forward with insurgent solicitations, and could literally unleash a wave of these types of solicitations, and I'll talk about broader trends in a minute in that regard.

The second major crossroad issue has to do with what was the honest proxy issue of 2004 and what looks to be either the first or the second chair issues in 2006, and that is director elections, in particular a changeover from having a plurality election standard in the election of directors to having a majority vote situation.

In 2005, we saw more than 80 proposals being offered to U.S. corporations. More than 60 of them came to votes and they averaged around 45% support, and 17% of those resolutions drew majority support of the votes cast for and against. For 2006,

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

we're looking at anywhere from 120 to 150 proposals on the topic, including a handful of binding bylaw resolutions, an escalation on this issue from where the debate stood in 2005.

I think notably we've also seen substantial movement on the corporate side, and nearly 35 companies now have adopted so-called plurality-plus alternative structures that basically trigger under a plurality voting standard a director resignation requirement following the receipt of a very substantial no vote, typically a majority of the votes being withheld from a particular candidate. And so we're looking to see, and Martha will talk about our policy in a couple of minutes on this issue, really a wide-ranging debate, not only in boardrooms, but at annual meetings, over whether these alternative structures are sufficient, or whether they create, again, a rough equivalent to the benefits provided by those majority vote resolutions.

The third crossroad issue is one that's changed a little bit. Before, I was talking in terms of boardroom independence, the debate being between the traditional CEO-Chairman structure that is in place at most U.S. corporations, and a move towards greater independence via the use of either independent chairs or meaningful lead director positions. Now, I say that debate has advanced to the point where it's not a question of whether boards are going to get independent leadership, it's what form that leadership is going to take, whether it's going to be an outside director serving as Chairman of the Board, or whether companies are going to bolster the job portfolios of those lead or presiding directors to bring them to the point where they offer a true counterbalance to situations where the CEO and the Chairman titles are vested in one person.

Look for a significant number of shareholder resolutions on that topic this year, and look for support to grow, especially at companies that haven't addressed this issue in one fashion or the other. And one change I've seen coming out of a lot of corporations, or at least discussion, is of the independent chair or lead director position as being just another internal control out there.

We've seen some recent surveys of directors that indicate that in many instances, the CEO-Chairman is the sole source or conduit of information flowing into the boardrooms, and you could not design a worse internal control than, again, putting the full information flow through the one individual who is most likely to be able to perpetuate a fraud within the corporate structure. And so I think we're to the point now where it's not a matter of if we're going to see this change, it's how that change is going to be implemented.

The fourth major crossroad has to do with accountability issues, and in particular two proxy season perennials, poison pills and classified board structures. We're about to see a point of inflection on the classified board issue, when sometime probably over the next two proxy seasons within the current rate of elimination of classified board structures we're going to reach a point where annually elected boards become majority practice at U.S. corporations again.

There were more than 40 proposals on ballots this year that made it to votes. They received 61% support on average, and 33 of them got majority support. Notably, however, there were nearly twice as many management proposals to repeal classified board structures on ballots this year, and nearly all of them passed with overwhelming support, and we're already seeing a major pipeline developing of companies that are going to put those charter amendments on their ballot in 2006.

On the shareholder rights issue, again, very strong support for nonbinding shareholder resolutions, calling for shareholder votes or redemption of rights planned, and those have led numerous boards to take action, either getting rid of their rights plans or adding shareholder approval language for any future rights plan adoptions, so those accountability issues remain hot on ballots this year. But we're seeing a lot more reform activity taking place in boardrooms as well.

The next issue, and perhaps the most contentious of the seven I'm going to talk about today, is executive pay. Clearly, it has been a hot issue that hasn't necessarily manifested itself in a lot of voting support in recent years, for either shareholder resolutions on the topic or for withhold vote campaigns against members of compensation committees. Look for that trend to end or to change, at least, in 2006, as we see a wave of shareholder resolutions on the topic, most of them aimed at linking pay to performance, but others of them dealing with issues such as shareholder ratification of the broad outlines of pay programs and shareholder votes or limitations being set on issues like SERPS and excessive severance arrangements.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Look for anywhere between 150 and 250 proposals showing up on that topic coming in from a variety of institutional and individual activists, and also look for a substantial step-up in the number of situations where you have individual investors targeting compensation committees, or entire boards of directors for what they view as being failures in the pay area, either a linkage of a relationship between pay and performance or abuses on the pay front.

The next major trend issue is less an issue than it is an investment in activism trends, and that's the growing role of hedge funds in the whole corporate governance debate. We have seen with the growth of the hedge fund space there's more than \$1 trillion invested in that area, a growing propensity on the part of these hedge funds to adopt very much in-your-face activism tactics, the same sort of tactics that have been used by public funds and labor funds for years, in order to put either shareholder value or governance issues on the forefront. And we're expecting to see these situations, and there were more than 200 of them in 2005, carry a lot of momentum into 2006 as well.

Finally, there's the social issue side of things, and a couple years ago, it would have been a short discussion, saying that virtually none of the proposals received significant support, but that's changed. Today, the proponents and the broader shareholder market have realized that many of these corporate social responsibility issues have significant market risk elements to them, and the proponents quite often phrase these resolutions in terms of corporations or boards reporting about the potential future market risk caused by issues such as global warming or employment discrimination, or international labor standards.

Look for those sorts of proposals to increase in 2006, and look for potential pressure to grow on boards of directors to join in discussions with proponents of those resolutions. We're also expecting to see, because it's an election year, a significant number of resolutions aimed at corporations, addressing political contributions, in particular soft dollar contributions.

With that overview of some of the trends, I'm going to pass the baton over to Martha Carter.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Okay, thanks, Pat, very much. What I'd like to do with the time we have before we move into Q&A is two things. First of all, I'd like to touch briefly upon our policy formation process, and in particular highlight for those of you listening on the call ways in which you can provide feedback to us throughout this process. And then, secondly, Pat and I are going to jump in with really the meat of the conversation today, and that is the 2006 benchmark policy highlights, and we are today focused on the U.S. side. We do have policies internationally and for our Canada group as well. Today, we're covering the U.S. guidelines.

I think as most of you know, we announced our guidelines just a few weeks ago, prior to Thanksgiving, and this was an acceleration of the process for us. In the past, we've announced our guidelines more typically in December or January, and we're going to try and shoot for the November timeframe from here on out to give everyone an opportunity to be able to incorporate these guidelines into their thinking as we move into a new year and a new proxy season.

The guidelines that I'm talking about, one thing I wanted to point out, is that these really are our benchmark or our standard policy. And it's typically the policy everybody focuses in on, but it's not the only thing that we administer or use as policies at ISS. And, specifically, we have different groups at ISS, such as our SRI group, which does social and environmental responsibility. We also have our PVS group, which does Taft-Hartley or AFL-CIO guidelines, and then we have over 300 custom policies that we administer on behalf of our clients.

So ISS speaks with many different voices when you talk about policies. What we're going to focus in on today is, as I mentioned earlier, our benchmark policy that we put together through a process that takes a good chunk of our time off-season, from about June, to, as I said, November, throughout the year, to take a look at our policies and where we're likely to make changes for a coming year.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

It is a policy-based approach. It's what we rely on as an organization. It has several benefits. It obviously enables us to provide a framework for analysis, both externally and internally. Externally, we can communicate our policies to the marketplace, which is, as an example, what we're doing here today. And, internally, our analysts are able to apply our policies in a consistent framework and a consistent manner as we do the analyses throughout the year.

Our policy is tied to a philosophy that we have that in general enhances shareholder value, promotes accountability and also promotes shareholder rights, and so in that regard we look for best practices in corporate governance throughout all markets of the world, because we do deal in many, many markets across the globe. If you look at - if you have the slides in front of you and can look at slide number five, it has a pictorial of our policy-setting process, and I can highlight that for you.

Starting at the bottom is the numerous subcommittees that we use internally at ISS, and these are management and staff-level subcommittees that go out and ferret out the various issues that we're going to take a look at each season. We have a policy steering committee that reports into the Policy Board. It's a board that I currently chair, and that includes all of our research business heads as well as our other corporate governance experts used to finalize our policies.

I mentioned earlier that I wanted to highlight areas in which issuers and others can give feedback, and one of the areas that's new for us this year is our roundtable discussions. That's new this year. Two years ago, we started our policy jams discussions, and that's with our institutional clients, where it's a take off of Web jams. We go out to our clients each summer with a couple dozen questions. We ask them their opinions on various topics, and we use that feedback in the policy-setting process.

On the roundtable discussions, we have incorporated both feedback from our institutional clients, as well as issuers and other corporate governance experts into those roundtables. So what we've done is we've identified hot topics that we believe will be of consideration for us, either in policy formation, or things that we've heard from our clients. We put together small groups of roundtable participants who, by design, have varying points of view on these topics, and we hold a discussion on it so that we can glean what the important issues are.

If you look at the next slide, it highlights some of the roundtable discussions that we've had to date. On slide six, you'll see that we've had several majority voting discussions. We've had three roundtables on it, with both a mixture of corporate as well as institutional participants. We've had three roundtables on executive compensation, really focusing on disclosure, which I'll talk about in a second with our policies. And we've had one on the auditor limitation of liability agreements that we're seeing, and we've got actually an upcoming roundtable this week on social-environmental issues, and we're planning additional ones on governance topics.

In addition to these items, from a feedback perspective, I also wanted to point out that you can give us feedback at any time throughout the year, either on individual issues or vote recommendations, as well as on our policy. Not only do we take that feedback, but we welcome it, and we do incorporate it into our thought process as we formulate our policies each year.

So, with that, let me tee up 10 polices from our updates, and we've selected 10 that we thought would really be important to highlight on this particular broadcast, and these start on page seven, or slide seven of your webcast. I'm going to begin with the board policies and then we're going to talk about compensation, audit and public responsibility.

And just one more note before I begin that, as we go through this discussion of our policies, I wanted to mention that we have a new policy gateway on our website. You can go there and you can look at our policy updates and the way we do our policy formation process, and as always, if you have any questions or any feedback, feel free to contact me or Pat, or feel free to contact anyone on the ISS staff, and we'll try and help you out.

So, with that, we're going to tee up 10 of our policy updates. I'm going to kick it off and I'm going to ask Pat to go ahead and jump in as he sees fit as we go through this discussion, and then we're going to turn it back over to Tina so that we can do a little bit of Q&A at the end.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

So, beginning with our board policies, we thought that what rose to the level of significance of being topic number one had to be majority threshold voting for director elections, because it certainly was the most hotly debated and highly discussed topic of 2005, and likely will continue to be so in 2006.

Pat mentioned some statistics as he opened this webcast about the percentage of support we've seen from the investor community on this issue, and two things that we thought about as we formulated our 2006 policy, and that is that we are likely to see more binding resolutions on this matter, and that we were likely to also see, as we have seen, what we call early adopters of some type of policy. And that is companies that are getting into the forefront of this discussion and making changes, either through adopting a majority standard or making changes to a plurality standard that allows for additional accountability.

So, in that light, we adopted the following policy that we generally will continue to support proposals on the majority voting, as we have in the past year. But we're allowing for some level of flexibility, and that is to consider voting against the shareholder proposal if the company has adopted what we call an equivalent or a meaningful alternative to majority voting.

So what we're hoping to see here is that boards get together with their shareholders and they really look at their individual structure, and if they want to make an adoption of a policy that is an equivalent to majority voting, essentially the bar has been set at the majority voting standard and the policy here recognizes that there's more than one way to hurdle that bar.

ISS, by the way, has gone on the record not only in our support in 2005, but we've gone on the record in support of majority voting through our comment letter that we put out in August of 2005 to the ABA that advocated a majority voting standard with modification of the holdover rule, and this policy really reflects that.

The other thing I wanted to point out about this policy is it's not a one-size-fits-all. We would hope that boards, again, would look at their individual structures and talk to their shareholders and what a policy that might be workable or in the best interest of company A may not even be palatable at company B, so in that regard we're hoping that companies will be mindful of the fact that it isn't a one-size-fits-all exercise. And then we also want to see evidence that the board was very thoughtful about this process and that they really looked at providing additional accountability to shareholders, as opposed to worrying more about the shareholder proposal, what type of vote they're going to be getting on it.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, just to reiterate that point, we know that there's a number of law firms and other consultants who have put out memorandums who indicate that there's kind of a one-size-fits-all approach that if you adopt this, you're going to pass muster with ISS's policy, and I can tell you that's just simply not the case. We are going to view these on a case-by-case basis, and as Martha said before, a structure that works at one company may not work at another firm. And so there is not a one-size-fits-all policy here, and so anyone suggesting such an approach is likely to, again, end up with a lack of success ultimately when we come out with our recommendation.

It is a three-legged [storm] policy. There is first of all what structure have you adopted as an alternative, and we give some suggestions on the sorts of issues that should be addressed in any policy that even meets the bare requirements for consideration for us as an alternative. But then also, and equally weighted, is the board's explanation of why it has adopted this particular structure and why the board believes that this is a meaningful alternative to what the proponent has asked for. And then, finally, we'll do a bottoms-up examination of the governance practices and accountability of the existing board in the past. And so, again, the burden of proof on all of these tests, ultimately, are going to be on boards, and we do expect that many companies simply won't pass the test.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Okay. We also have a couple of other board policies that we wanted to address before we move into another hotly contested area, which is compensation. But, first up, let me talk about a new policy we have on performance tests for directors, and this is on slide eight, again, if you have the webcast slides. Currently, we don't have a systematic performance overlay for performance testing for directors, but as we go out and we do spend a lot of time with our institutional clients, talking to them, and this is really important to them really on a day-to-day perspective.

This is what they do, they manage money, and they are looking at the bottom-line performance of companies, and where they see performance at companies over multiple years, they get concerned and they want to know what the directors are doing to either change that or fix that. And so we've developed a performance test in that regard that looks at a multiyear weighting, and there's a weighting given on slide eight that shows 20% on year one, 30% on year three, and you'll notice that 50% weighted most heavily on year five, based upon total shareholder returns.

And we look for those that cluster towards the bottom performers based upon these weightings in each industry group, and we are defining industry group as [GICS] code, so there will be 24 different groupings. We'll take the bottom performers that cluster in these groups and take a look at the rationale, the reasons why they have been lagging their peers in terms of performance.

We're going to, as a second screen, evaluate the reasons for the poor performance, look at any changes on the board, any changes of board or management, look at what the board's doing to improve performance, any new transactions or the like, and see whether or not this is a board that essentially needs a wakeup call in the form of recommending withholding the board based on these factors that the board gets a clear indication that their performance is not acceptable.

The second board test that we're also looking at is director term limits. This is on slide nine, if you have it. Currently we have, again, no formal policy on director term limits, but we're going to start looking at the following. We're going to look at aggregate tenure on boards, and we're getting - we're getting a fair amount of feedback on the line, so if those that are not speaking could go ahead and put their phone on mute, that would really be useful.

Thanks.

Patrick McGurn - *Institutional Shareholder Services - EVP*

There we go.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

And on the board policy for director term limits, we're reviewing aggregate tenure on boards. What we found in terms of best practices is that boards that have a mix of tenure on board for institutional memory, as well as fresh ideas, are those that probably perform best. And when the average tenure gets too high of the entire board, it suggests limited turnover, possibly a lack of fresh ideas, and may even suggest problems with independence. So we're going to be inserting cautionary language, where average director exceeds 15 years, we're going to start tracking and identifying it, putting data out there for our institutional clients to note and looking at those that have tenure in excess of 15 years.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, Martha, will this have any impact if there's a shareholder resolution asking for term limits or limitations on boardroom tenure?

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Yes, this is not adopting a tenure policy per se, but rather is simply identifying and tracking those that have this double-digit tenure, and so our other policies are going to continue in place. What we're likely to do with this data is take a look at it at the end of the '06 proxy season and may indeed evolve this policy as needed for 2007.

Moving on to compensation area. The top of the list in compensation, and again, Pat alluded to this with the discussion of what's going on at the SEC, is the importance of disclosure for executive compensation, really providing investors with boilerplate disclosure on compensation isn't enough anymore. We're looking for improved disclosure, and that's an important component of what's in a proxy statement. ISS is going to focus on quality and advocate the use of a tally sheet to the following policy.

On our tally sheet disclosure policy, we're going to include cautionary language for Russell 3000 companies that don't include tally sheets disclosure, and we have an itemization of things that we're going to be looking at in our policy documents. And we may indeed take action in 2007, again, another work in progress type of policy, if no improved disclosure is realized. And at that point in time, that action could include recommendation against the comp committee if we don't see best practices.

Patrick McGurn - *Institutional Shareholder Services - EVP*

On that point, I talked about the process going on at the SEC and if it's likely to proceed through the early portions of 2006, probably in time for some general requirement that they have enough votes on the commission to put that in place for the 2007 proxy season. I can tell you, even if that process doesn't reach fruition at the SEC, we're also seeing this tally sheet concept come up in Congress, as well. The recent legislation introduced by Congressman Barney Frank included not only this tally sheet concept, but also layered over it a potential shareholder ratification issue related to the executive compensation plan or program that a board puts forward. So, clearly, I think the Congress is watching the SEC at this point in time. And to the extent that the SEC needed any political cover from Capitol Hill, I think they've got it at this point in time to take action and implement these rules, even if there is a substantial outcry from the corporate community, or pushback against these new regulations.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Another policy that we have for 2006 is on slide 11, and that is our withholding votes from comp committee members for poor compensation practices. We have in the past done withholds on comp committees for what we believe to be egregious practices. And what this policy really does is it highlights our thinking on this issue and it codifies some of the action that we've taken on it, and it also identifies where we're going to scrutinize in 2006.

We're really looking for those outliers that are poor disclosure, poor practices, poor design of compensation payouts at companies that we will then take a look at the job and the role the comp committee is playing vis- -vis these poor practices.

Specifically, where are we going to look? Well, we're going to look at employment contracts. Perquisites, we've all heard a lot of talk about accepted perquisites, things like performance metrics that change midstream. Something that's very important to our institutional clients, and that is a delinkage of pay and performance, particularly CEO pay, and then new CEOs coming onboard, for example, that might have excessive pay packages. So those are all the areas that we may, and indeed will, scrutinize with this policy.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, just to underline what Martha just talked about, we're not looking to go after every board that approves a contract that provides for some sort of perquisite. We really are looking for the outliers here, and again, a lot of times we're going to be less concerned about the quote-unquote materiality of some of these forms of compensation in dollars and cents terms as we are

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

the fact that they may be distorting the incentive package or, again, delinking pay from performance. So I think there is a definite feeling within our institutional base that some of the abuses, while even on the margins of the pay package, can have a significant impact on company conduct. And so that's why this is such a major initiative this year.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Two other compensation policies that I want to highlight, and the first one being burn rate. Last year was our first year of our burn rate policy, and this was really an effort to capture annual grant patterns and identify outliers within index, which we defined as Russell 3000 and within industry, which again we define as GICS code.

This year, again, we have our burn rate policy, and the update document that we have provided out includes our burn rate averages for our industry classifications. If you look through those numbers, one thing that you will notice is that in general burn rates are lower. This isn't true for every GICS code classification on there, but in general those burn rates have gone down a bit.

So we do have our updated averages information out there, and we also have modified our commitment. Our commitment is triggered when a company runs afoul of our burn rate policy and exceeds mean plus one standard deviation, which we defined as an outlier. Last year, we had a commitment in place for companies that did exceed the burn rate test, and that commitment was a mean. One of the problems we found with that commitment was that it was actually stricter than the initial test that the company had failed to begin with, and there was a bit of confusion on that. And so to provide for consistency and simplification, we've changed it. And so for 2006, the company shall commit to an annual burn rate equal to mean plus one standard deviation, if indeed the burn rate policy is triggered.

The other item of note is on our elimination of VPD. This is a policy that would be familiar to those of you that know our compensation methodology and our comp model, so this change many not come as a surprise to you. In the past, we've given minimal weight assigned to our voting power dilution component, 5% weighting to be exact, and we've given 95 weighting to what we call SVT, or our shareholder value transfer component. And now we're going to be giving all of the weight, or 100%, to shareholder value transfer.

In the past, as we've used this methodology, the VPD portion of this was only a 5% weighting. It often had minimal impact, and in an efficient market, one could conclude that the dilution is already incorporated into share price, and so really the traditional 5% weighting was not needed. So, what we've done is we've changed the 5% down to 0%, but we're going to be continuing to calculate VPD, and we're going to continue to display VPD on our analysis as a data point for our clients.

Next up is the audit area, and I'm on slide 14, for those of you who have the webcast. A couple of comments in the audit area. We've had in place for a number of years our audit fees policy, which advocates low tolerance on non-audit fees as opposed to audit fees, and in the past three years or so, we've really seen those non-audit fees come down. Certainly, the prohibited categories as a result of Sarbanes-Oxley contributed to that. And we've really seen a tremendous focus by companies on audit fees and non-audit fees.

So there is no change to the audit fee policy for this year. One area where we are taking a look at, and that is Section 404 of Sarbanes-Oxley. Whereas last year we took the position that this policy is too new and untested to really formulate a specific policy on the issue, we wanted to really see what types of material weaknesses were being reported and where the problems were coming up in terms of internal controls at companies.

This year, we've adopted a case-by-case policy on this issue. We may consider withholding votes from audit committee members if indeed there is a report of material weakness in internal controls, and we'd look to the nature of the weakness, the response by the company and what's been the role of the auditor and the role of the audit committee in this process.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

One of the difficulties we've had in the past in putting in place this policy is simply that it isn't fully effective yet, and so starting in 2005, for many, but not all companies, they do have to obtain annual attestation of the effectiveness of their internal controls.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, just to reiterate what Martha said before, I think since a lot of companies will be going through their second run through 404 compliance at this point in time, we'll be literally going back to the general themes that we espoused in this area last year, what I call the two Cs. Candor, that is with the board and the audit committee, candid in outlining what the problems were, and then cure, that it put in place a timetable and a plan for fixing the internal control problems that it uncovered. And, in looking at that, again, with 12 months of time having passed, we'll have the ability literally to go through and see whether companies, one, fix the problems that they found the first time, and, two, whether they found new or more significant problems over the course of time.

And, clearly, the worse the problems are, or if they're in areas such as revenue recognition, certainly, that tend to be more closely tied to significant restatements and fraud and the problems, we'll be much more likely to, again, take action against audit committees or full boards.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Two other areas that I wanted to highlight before we move into Q&A, and that is in the area of corporate responsibility. First, as a general comment, ISS's benchmark policy looks at corporate responsibility and social and environmental proposals through an economic prism.

We look for enhancing shareholder value or decreasing risk, and we may at times recommend floor proposals that ask for improved disclosure on issues if we believe that shareholders not having that information would put them at greater risk vis- vis their peer companies. We generally advocate against prescriptive actions on particular things. In general, ISS remains agnostic on these causes that are often espoused by advocates of these types of proposals, but we do recognize that there could be a value-destruction proposition if indeed there are fines, there is business disruption and there is true impact on shareholder value. And that's the general framework under which we view these.

The two that I wanted to highlight for you today, one is on Kyoto Protocol, which Kyoto was ratified in November of 2004, and so we are starting to see some proposals asking for companies to really outline their preparations to comply with the standards of Kyoto for markets in which Kyoto is effective. And, last year, we saw this proposal at companies that were affected by proposals on reductions of green house gas emissions.

So we're looking this year at generally recommending floor resolutions requesting companies outline how they're going to comply with these standards, because there is a real dollar value to noncompliance on these issues. There are huge fines that could be imposed in markets in which Kyoto is effective. There could also be monetary cost to going on the secondary market to purchase credits for emissions when a company exceeds its emissions standards. So we believe that really ties into our economic framework through which we look at these types of proposals.

And then, finally, quickly, political contributions is another area we wanted to highlight, because we did have a change in this policy. Our policy has in the past been to vote against proposals asking for additional disclosure on political contributions, and we've changed that policy to be case by case. There could be impacts on shareholder value here, so we may support shareholder proposals calling for increased disclosure, looking of course at a company's history, what the proposal is asking for and whether or not shareholders would be impacted by a lack of disclosure on this issue.

So, with that, I think we'll save some time here for questions and answers, and I just wanted to reiterate what Pat mentioned at the outset, that we're happy to take questions on the policies that we've talked about here today, or ones that are in our policy

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

update. We would ask, respectfully, that you call any specific company fact patterns to address with us offline, because we wouldn't be able to do them justice here today.

So, with that, I will turn it back over to Tina to ask the questions.

QUESTIONS AND ANSWERS

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Thank you very much, Pat and Martha. You got an amazing amount of information out to us in 45 minutes. Thank you.

We also, on behalf of ACC, I'd like to express appreciation to ISS, not only for doing this program for us, but also for getting out your policies so early. I know it was a challenge on your end to have them out early, and we were delighted to hear that that's the plan for subsequent years. So, it helped all of us out immensely, and we appreciated the input that you're getting from issuers as you develop these policies. I'd like to remind everybody that if you have questions, we'd like for you to e-mail them to two addresses, please, tsvandam@dow.com, and hsklaw@cox.net.

So, Martha and Pat, I have a few questions to start with. One of them related to the number of withhold votes that you think you're going to be doing this year from directors. I think that this was in reference to the information that you provided us on performance tests, primarily, as well as the other kinds of factors that you generally take into account on individual directors.

Can you give us some guidance on what numbers of withhold vote recommendations you had last year and how this might compare with what you're expecting for 2006?

Patrick McGurn - *Institutional Shareholder Services - EVP*

Sure, happy to. We've seen a consistent trend over the last couple of years of a drop, and a fairly significant drop of the number of directors and the number of companies where one or more director receives a withhold recommendation from ISS. If you go back literally three years ago, kind of right in the midst of that Enron and WorldCom issues, I think we recommended against one or more directors at more than half, 52% of all the boards that we looked at during that proxy season - the 38%, I'm sorry, in 2003, to 32% in 2004 and this year it's holding pretty steady at 29%. And, frankly, given the reforms we're seeing adopted as far as boardroom independence and over boards of directors, some of the past policies they've adopted, we expect that number to continue to drop.

So I wouldn't be surprised to see that number around the 25% mark or even below that. None of the policies that we're adopting this year related to withhold votes should impact, again, a very significant number of companies. Probably the largest play this year will be for the two we discussed, issues related to boards and excessive or egregious compensation practices and the performance overlay. But, in these cases, we're probably talking about scores at most, and not hundreds, of boards drawing such negative recommendations.

Each year when we go through this policy process, we really do look at what the likely impact of what these resolutions are going to be. We don't believe that, again, it's effective for ISS or for investors, generally, to be, again, withholding votes against every director at every company. It simply ruins the communicative value of that process. And to the extent that we move towards a majority voting environment, frankly, that's going to change the calculus even more, because if there is the potential that one of our recommendations could lead to the removal of a director, that will be part of the calculus that we'll have to run through in making those recommendations to our clients.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Just to be sure that we understood the answer, the percentages that you gave were not total number of directors, it's number of boards that have one or more withhold recommendations on the board?

Patrick McGurn - *Institutional Shareholder Services - EVP*

That is correct, but to put it in terms of nominees for the same three-year period at least, for 2003, it would have been 25% of nominees, or one out of every four receiving a withhold from us. That number dropped to 20% of nominees in 2004, and it's standing at 17% of nominees this year.

So, either way you look at it, either boards with one or more withholds, or the actual raw number of directors receiving withhold recommendations, it's gone down substantially whichever way you count it.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Okay, another question. Can you explain the concept of liberal share counting with respect to adoption of the new equity plan?

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Sure. The concept of liberal share counting is a fairly easy concept. It's simply recycling, and what we do with that is we continue to count those shares, because they're recycled, and it can take many forms, but basically they may take shares that are granted out for a particular reason, turn around and recycle them or incorporate them back into a compensation plan for various reasons.

So, plans that have what we call liberal share recycling provisions, where shares are granted and exercised can come back around and be added back into the plan for future grants, and we look at those circumstances under which there's liberal share recycling, and we would incorporate that into our analysis of the plan.

Patrick McGurn - *Institutional Shareholder Services - EVP*

We have an FAQ, a frequently asked question, document on our compensation policies, which we'll be adding to the gateway site so people can take a look, and we also have one up on our majority voting policy right now to give a little more color on both of these issues.

So, if people want to visit that gateway at issproxy.com, that guidance on majority elections will be up there now, and within hopefully a couple of days we'll get the FAQ up on comp policies, as well.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Okay, and could you explain to us what issuers can expect in terms of timing and process of the ISS recommendation on individual companies, how you'll be communicating, and how much lead time companies will have to give you comments?

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Sure, we typically will release an analysis somewhere in the neighborhood of two weeks ahead of an annual meeting, and that number can go anywhere from about two to three weeks ahead. Typically, we won't be any further out than that. We don't try and get too much inside of a meeting date. Once we get into about 10 or 12 days ahead of a meeting date, it tends to not be

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

enough time to really focus in on an analysis from the point of view of our institutional clients, and so we try and stay in that kind of two-week to 14-day range in terms of an analysis.

From the perspective of an issuer, research will typically engage with an issuer when a proxy has been finalized, and so we can have the types of discussions we're having today, for example, on policy issues - we're happy to have throughout the year or when an issuer is thinking about crafting some language in their proxy and they want to talk to us about what our policies and our guidelines are. We're happy to have that discussion. We will engage on specific items that are on ballot for a proxy when that proxy has gone definitive.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Okay, and then I think some companies have been concerned because the turnaround time on getting comments back is sometimes 24 hours. Can you do anything to lengthen that timeframe?

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Where we do provide for comments, and this is we provide for effectively what is a fact-checking exercise for S&P 500 companies. It's a courtesy on our part. It's not meant to be any type of lobbying effort on where our vote recommendation is, but rather really to look at the facts and the data that's presented in analysis and allow them an opportunity to fact check. So, particularly during proxy season, that turnaround time is going to be fast, because our first obligation is to our institutional clients and we can't hold up an analysis because a company wants to debate or discuss a particular issue.

Rather, we're merely there to allow a company to take a look at it as a fact-checking exercise and move it along so that we can get it out.

Patrick McGurn - *Institutional Shareholder Services - EVP*

And, again, just on that point, we try and give as much time as possible, but we always have the constraint of our delivery deadline for institutional clients. So we just ask people when they know they're getting in that 14 to 20-day range that they watch out for any communication for us so they can turn around fairly quickly.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

And just to give you a factoid on that particular point, because we do this outreach in the draft program for the S&P 500, about 400 of the S&P 500s have their meetings within an eight to 12-week timeframe in the spring. So this is a highly seasonal exercise for us, and during that timeframe, we really have to move as quickly as possible, and that's where you're probably going to see those 24-hour or very short-term timeframes that we're requesting.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

There's been some press recently about auditor engagement letters and language within them on limitation of liability and/or indemnification. I know the PCAOB is concerned about whether that compromises auditor independence. Do you want to comment on ISS feelings about any things like that and engagement letters and are you thinking that there will be more proxy disclosure this year than there has been in the past?

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

ISS recently actually did a roundtable discussion on this issue, and we have put out a summary of that. We brought together a couple of the key auditing firms, as well as institutional clients of ours and corporations to talk about the issue. And what we've done so far is more of a fact-finding exercise, because there are so many different types of agreements that are out there. Some of them, quite frankly, are more egregious than others.

One of the problems from our institutional clients' perspective is certainly the lack of disclosure, and many of our clients have expressed that they would like to see more disclosure on these items out there and what the effects are. The ones that have been highlighted recently, Tina, you mentioned that it's been in the news. A couple of companies have come out with disclosures on such things as punitive damages and a jury waiver, are typically the two that tend to come to the forefront as provisions in the auditor agreements.

So what we're trying to do is really take a look at the different types of agreements and whether or not there would be any chance that there would be an impairment of independence. But certainly what we would advocate is better disclosure on the part of the companies on these issues.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Yes, just to broaden that out, I think we're going to see a lot of voluntary disclosure this year as it goes well beyond sort of the black letter requirements put out by the SEC, I think. And, again, it will be in this area, the audit area, but also in the compensation area. And I think, frankly, boards can do themselves a favor quite often by perhaps overdisclosing, quote-unquote, in some of these situations. Because the worst-case scenario is something like this comes to light and the board hasn't disclosed, I think, because that's something that could really backfire on them in a proxy season setting.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

And I think we have time for one more question, and the one I have here is one of our participants expressing some frustration on rules changing at ISS, where each proxy season companies may try to meet the standards that are expressed in your policy guidelines, but then find that the next year the bar has been raised, and expressing some frustration at the changing standards.

Do you want to address that question?

Patrick McGurn - *Institutional Shareholder Services - EVP*

Sure. I mean, actually, our process is very deliberative. We do not make knee-jerk changes in our voting policy, and we only make changes on an annualized basis. In most instances, our [inaudible] actually telegraphs reforms that we consider to be important. We often do our corporate governance quotient ratings, for example, as almost sort of a farm team, if you would, for our voting policies. We address some of the best practices at the stage of providing credit or lack thereof under our CTQ methodology. And, quite often, those issues work their way into our voting policies, eventually, but we're very cognizant, as I said before, of, again, not adopting policies that are going to lead to kind of blanket or an avalanche of no votes against boards, because it's our belief that that does kind of dull the communicative process of those votes.

So, we appreciate getting feedback, and I'd love to hear where somebody was taken by surprise by one of our guidelines, because quite often I think we telegraph these things several years in advance - quite often, as Martha talked about before, by providing cautionary language several years in advance of an actual change in our policies.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

And just to kind of jump in on what Pat said, you may want to take a careful look at the 2006 policies, because we have put in what I'll call a couple of shout-across-the-bow policies, like the tally sheet disclosure, and we've tried to highlight the fact that these are work-in-progress policies and they may indeed change for 2007.

Patrick McGurn - *Institutional Shareholder Services - EVP*

And we do actually revisit those issues. Interestingly, this year, we had been putting cautionary language in for a while, at least last year, indicating that under our over-boarded policy that we were potentially going to vote against CEOs who were viewed as being over-boarded at their home company boards. And we made an affirmative decision this year not to go in that direction, that we were sending we felt not necessarily the best message in that case. So we're going to leave it if they're non-home company boards, so if they're over-boarded, they'll receive the negative rec, but they won't receive it at their home company board.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Okay, and to the extent that any of our participants have comments to pass on to you at ISS, or company-specific questions, how should they communicate that?

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Please feel free to contact either one of us. And we also, as Pat mentioned, we have our policy website. So we have the policy gateway. You can contact U.S. Research or contact either one of us directly and we can get whatever's needed to the right person for feedback.

Patrick McGurn - *Institutional Shareholder Services - EVP*

And, again, our e-mail addresses personally are martha.carter@issproxy.com and patrick.mcgurn@issproxy.com, and they are on the last page of the slide, if people received them or receive them after the webcast.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Yes, so for those of you who have the webcast, on page 17 is our contact information.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Okay, Martha Carter and Pat McGurn of ISS, thank you so much for your time and your candor. We appreciate it and look forward to working with you in the 2006 proxy season.

Patrick McGurn - *Institutional Shareholder Services - EVP*

Thank you.

Martha Carter - *Institutional Shareholder Services - SVP and Director of U.S. Research*

Thank you so much, Tina, for setting this up.

Dec. 13. 2005 / 4:00PM, **ACC - ISS and the Upcoming Proxy Season

Patrick McGurn - *Institutional Shareholder Services - EVP*

Happy holidays, everyone.

Tina Van Dam - *Association of Corporate Counsel - Secretary*

Thank you. And then, to all the people who are on the webcast, you can get the slides off the ACC website. I got a few e-mails that some of you had problems getting them. Others of you said that if I was spot-checking that you were able to access them. So, feel free to send me an e-mail if you weren't able to pick them up, and I'll just forward the slides to you electronically. And the ISS documents that were referenced are at www.issproxy.com.

Thank you all.

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