



OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE

Friday, July 18, 2003

Nappier Says 2003 Is “Watershed Year” for Shareholders as Corporate Attitudes Toward Governance Reforms Change, More Progress Achieved

Connecticut Treasurer Urges Continued Efforts to Increase Accountability on Range of Issues

Connecticut State Treasurer Denise L. Nappier today described the just-concluded shareholder proxy voting season as a “watershed year” for investors, but stressed that pending decisions by the Securities and Exchange Commission (SEC) could either support or undermine ongoing efforts to restore public and investor confidence.

Nappier also noted a number of “firsts” for the Connecticut pension fund, including multiple majority votes, meetings with independent directors, and filings on new issues including shareholder communication with directors and climate change risk. In addition, the pension fund’s proxy votes have, for the first time, been posted on the Treasury website (www.state.ct.us/ott).

“Shareholders are demonstrating, as never before, that they have learned the lesson of Enron and are not waiting for disaster to strike,” Nappier said. “With increasing activism by institutional investors, heightened interest by individual shareholders, and growing receptivity from corporations, meaningful governance reforms are beginning to take root.”

“Efforts to achieve corporate governance reform have struck a chord, because too many companies struck a nerve with investors. As a result, we are seeing the beginnings of a very different approach in corporate America to the responsibilities and obligations of corporations and their boards of directors. It comes in fits and starts, sometimes grudgingly, sometimes with resistance -- but this year has clearly demonstrated that progress is possible,” Nappier said.

Nappier, principal fiduciary of the \$18 billion Connecticut Retirement Plans and Trust Funds (CRPTF) and co-chair of the recently formed special committee on corporate governance of the National Association of State Treasurers, stressed that “if public and investor confidence in the integrity of the financial system is to be fully restored, corporate and regulatory reforms must continue, and should not be limited to only a handful of governance issues.”

Nappier called on the SEC to follow-through on recent staff recommendations to expand shareholder access to the proxy and independent directors, saying “if investor uncertainty is to be conquered, I would urge that these recommendations not be divided. Together, they will help restore investor and public confidence and permit more independent and diverse corporate boards to improve accountability and results on the bottom line.” She also urged strengthened requirements for corporations to provide shareholders with an assessment of potential risks related to climate change, among steps aimed at providing greater accountability to investors.

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Connecticut's commitment to corporate governance reforms found new allies and increasing success this year, including unprecedented votes on shareholder votes on issues ranging from disclosure of climate change related risks to executive compensation and off-shore reincorporation to annual election of directors. The Treasury also filed resolutions on expensing of stock options, board independence, shareholder communication with independent directors, board diversity, audit committee oversight of management and global labor standards. Among the noteworthy achievements during the 2003 proxy season:

- Treasurer Nappier arranged a first-of-its-kind **meeting with GE's lead independent director** and chairman of the compensation committee to discuss compensation issues. Attended by a number of GE institutional shareholders, the meeting led to increased disclosure and plans for additional follow-up with investors.
- CRPTF-sponsored resolutions for **annual election of all members of the board** at Reebok and Stanley Works received majority votes.
- The CRPTF resolution at American Electric Power requesting a report on the company's **financial risk due to climate change** received a 27% vote – one of the highest ever for a climate change resolution, and highest at an electric utility company. The vote, described by *The Wall Street Journal* as unprecedented, was also seen as reflecting growing concern by mainstream investors about the impact of climate change on their investments.
- CRPTF advocacy of **direct communication between shareholder and independent board members** resulted in direct conversations with independent board members at GE, Safeco, Nextel, and American Power Conversion. At Safeco, a resolution co-filed with New York City was withdrawn after the company agreed to establish a formal e-mail system for shareholders to directly communicate with independent board members.
- 45% of shareholders voted for the resolution at PeopleSoft for **expensing stock options**.
- CRPTF co-filed the shareholder resolution on **off-shore reincorporation** at Ingersol Rand – which received 41.4% support from shareholders and attention of corporate leadership.

Nappier noted there were an unprecedented number of shareholder proposals, 43, on the issue of climate change risk, which she has described as the “next tier” of corporate governance reform -- including three from Connecticut. In addition, data compiled by Institutional Shareholder Services Inc. found that there have been 78 shareholder proposals dealing with executive or director compensation in 2003, nearly four times the 21 proposals in 2002.

“We cannot let the legacy of Enron and the other scandals be limited to reforms in financial accounting, disclosure, and conflicts of interest,” Nappier said. “Half a loaf of reform is not enough. Corporate transparency, accountability and an honest assessment of risk on a broad range of issues will reveal the off-balance sheet liabilities that could threaten to undermine shareholder value -- just as surely as accounting manipulation and the absence of disclosure undermined Enron shareholders, employees and the integrity of our financial markets.”

The CRPTF filed resolutions as primary filer with American Electric Power, American Power Conversion, Cummins, Dell, GE, Halliburton, Johnson & Johnson, Reebok and Stanley Works. The fund co-filed resolutions at Colgate Palmolive, Danaher, Home Depot, Nabors, Peoplesoft, Exxon Mobil, Gillette, Ingersoll Rand, Illinois Tool Works (ITW), Safeco, and Sears.

Treasurer Nappier also joined with shareholders in addressing issues at a number of other companies. In addition, the CRPTF withdrew resolutions at several companies after corporate leadership expressed interest in pursuing discussions on the goals of the proposed resolutions.

“These efforts, by Connecticut and others, have both drawn attention and brought results, in some cases moving major companies to step into previously uncharted territory, providing a model for others to follow. The concerns about corporate governance are not new, it is the corporate interest in addressing them that marks a new day,” Nappier said. Highlights of the issues pursued during the 2003 proxy voting season:

Executive Compensation

Executive compensation was a key issue during the 2003 proxy season. Nowhere was that more apparent than at General Electric, where over a dozen shareholder resolutions were filed, including one by the CRPTF. Treasurer Nappier took the lead to arrange an historic meeting in March to discuss compensation issues among a number of GE institutional shareholders and the company's lead independent director and chairman of the compensation committee, Andrew Sigler. As a result of the meeting, the company disclosed additional information on its website and agreed to follow-up on other issues raised. Based on the agreement to this meeting, and further discussions on other issues, the CRPTF withdrew its resolution.

Expensing Stock Options

One form of executive compensation that received increased attention in 2003 was the accounting treatment of stock option grants. In recent years companies have granted large amounts of stock options to CEOs and other top executives. When these grants are exercised, the value of shareholder investments are diluted. At most companies the options are not reflected as an expense to the company on financial statements. More than 100 shareholder proposals were filed this year asking companies to expense their stock options. The CRPTF co-filed on the proposal at Peoplesoft – where the resolution received the support of 45% of shareholders. The resolution was also filed at Siebel System – where the CRPTF has had extensive conversations with the company on executive compensation, including with the CFO, and a meeting is to be scheduled to have similar discussions with the company's compensation committee.

Emissions and Climate Change Risk

A report by the Coalition for Environmentally Responsible Economies (CERES) points out that “climate change represents a potential multi-billion dollar risk to a wide variety of U.S. businesses and industries. It should, therefore, command the same level of attention and urgency as any other business risk of this magnitude.” Treasurer Nappier has taken a leading role on the issue of climate change and how it can impact the value of the state's pension fund investments. At American Electric Power, a resolution requesting a report on the company's financial risk due to climate change received a 27% vote – one of the highest ever for a climate change resolution, and the highest at an electric utility company.

The CRPTF also co-filed a climate change resolution at Exxon Mobil, where it received 22% support. A resolution was withdrawn at Cummins Engine – the largest U.S. manufacturer of diesel engines – when the company agreed to (a) better and more consistent environmental reporting – and moving to reporting in accordance with the Global Reporting Initiative (b) engage in substantive discussions with CERES (c) be more actively involved in efforts to reduce emissions from diesel engines in school buses and (d) make public statements on the need to reduce pollutants, particularly from their diesel engine products.

Annual election of all board members, Communication with independent board members, and Audit Committee oversight

The board of directors provides shareholders with oversight of the operations of the corporation. It is vitally important for board members – particularly those independent of management – to be responsive and responsible to shareholders. During the 2003 proxy season, the CRPTF took a number of actions to encourage board member accountability.

The CRPTF aggressively advocated **direct communication** between shareholder and independent board members. Direct conversations with independent board members took place at GE,

Safeco, Nextel, and American Power Conversion. At Safeco a resolution co-filed with New York City was withdrawn with the company agreed to establish a formal e-mail system for shareholders to directly communicate with independent board members.

CRPTF resolutions seeking **annual election of all board members** at Reebok and Stanley Works received majority votes. Treasurer Nappier will be asking these companies to follow the lead of Great Lakes Chemical which, after a majority vote on a shareholder proposal in 2002, proposed annual election as a management initiative in 2003, which was adopted. In addition the CRPTF withdrew a resolution at Dell Computer when the company agreed to put annual election of all directors on the 2003 proxy ballot as a management proposal.

The CRPTF followed up its 2002 resolution on **board diversity** in 2003 at American Power Conversion, and co-filed a new resolution at Danaher calling for the nominating process to seek out a broader candidate pool that would include women and people of color. Both boards currently include no women and no people of color. At both companies, 29% of shareholders supported these resolutions.

In addition the CRPTF co-filed a resolution at Illinois Tool Works (ITW) requesting a report on affirmative action policies. The resolution was withdrawn when the company agreed address the issue by adding a new section on their web site on Corporate Citizenship and Employee Relations. The CRPTF also filed a resolution at Johnson and Johnson seeking a link between executive compensation and the CEO's performance on promoting diversity. The resolution was withdrawn when the company agreed to add language in their compensation committee report, to become company policy, that ties CEO and senior management pay to diversity goals. J&J also agreed to revise the definition of diversity on compensation awards to make it broader and more inclusive.

Treasurer Nappier wrote to a number of companies on the issue of **audit committee oversight** – and found that all were in the process of developing plans to implement the requirements of the Sarbanes-Oxley Act, passed by the U.S. Congress in 2002. During the year the SEC issued her a series of regulations to implement the Act, and companies were working to put their plans in place. They will need to comply with the provisions of the Act in stages over the next two years, and Treasurer Nappier intends to continue to monitor their progress. One shareholder resolution was filed, at Halliburton, requesting a report to shareholders on the implementation of Sarbanes-Oxley. This resolution was withdrawn after the company agreed to post its policies on its web site and update them as they are developed further.

Off shore reincorporation

In 2002 Treasurer Nappier led the successful effort to keep Stanley Works from moving its corporate home from Connecticut to Bermuda. In 2003 she joined other institutional investors in asking companies that have moved to Bermuda and other off shore tax havens to move their corporate domicile back to the U.S., where shareholders receive greater protections. The Connecticut Treasury supported the resolution filed at Tyco, and co-filed the shareholder resolution at Ingersol Rand – which received 41.4% support from shareholders. The CRPTF also co-filed a resolution at Nabors Industries and supported resolutions at McDermott and Cooper Industries.

Global Labor Standards

In 2003 the CRPTF continued communication with companies on global labor standards and human rights of workers in other countries who make the products the companies import and sell in the United States. At Colgate Palmolive, a resolution co-filed with New York City received 11% of the shareholder vote, and a similar resolution was co-filed with New York City at Home Depot. At Sears, a resolution co-filed by the CRPTF was withdrawn when the company agreed to a series of structured discussions on the issue during the next year.