

## **AMALGAMATED BANK LONGVIEW FUNDS SHAREHOLDER ACTIVITIES FOR 2005-2006**

The past twelve months have witnessed a continuation of a trend that began with the Enron-era scandals of a few years ago, namely, a greater demand by investors for accountability on the part of directors and management.

The LongView Funds continue to play a leadership role in this effort. In December 2005, for example, the LongView Funds filed the first shareholder proposal dealing with the issue of backdated options, a practice that would soon mushroom into a scandal involving many companies. LongView also pioneered a resolution to remove individual directors from a board when those directors had a chance to stave off considerable losses, but failed to act early. LongView has also enjoyed continued success in its efforts to persuade a growing number of companies to adopt governance changes that are viewed as “best practices” in the field.

In the twelve month period ending June 30, 2006, the LongView Funds filed over 25 resolutions, approximately half of which came to a vote. A number of others were withdrawn following negotiations in which the specific company agreed to make certain changes. The following is a discussion of the major topics of interest.

### **Executive Compensation.**

In recent years there has been a drive to reform executive compensation practices. Apart from concerns that executive compensation is out of control, there has also been a strong sense among investors that there is often no connection between how much executives were taking home and how well the stock price was doing. Indeed, as the annual meeting “season” got underway this spring, investors were shocked to learn that a number of companies had severed the connection between pay and performance through “backdated” options grants and other practices that offered risk-free gains to executives lucky enough to receive them.

Months before the backdating story was picked up by the general news media, the LongView Funds filed the first shareholder resolution dealing with the issue. At **Mercury Interactive**, the CEO and two other top officials had to resign after admitting to backdating for their personal gain. Mercury’s stock was delisted

(and thus dropped from the LongView portfolio) before the proposal could come to a vote, however. Our fellow institutional investors at the New York City pension funds will follow through on presenting the proposal to the company.

The options backdating scandal broke too late in the 2005-06 season to be the target of extended shareholder activism prior to now, but the LongView Funds are continuing to investigate the matter and expect to be in the forefront on the issue in 2006-07.

The LongView Funds continued their successful campaign to give shareholders a say if companies choose to pay top executives exorbitant “golden parachutes” when they leave. Following up on a successful shareholder vote at its 2005 annual meeting, **Republic Services Group** adopted a policy adopting the LongView proposal. A shareholder proposal requesting the adoption of similar policies was adopted at **Morgan Stanley**, which in 2005 awarded eight-figure golden parachutes to departing executives, including one who had been on the job for only three months. Similar proposals fell just short of a majority at **SPX Corp.** and **Allied Waste Industries**.

Because of its concern that options awards and other incentive-based compensation are not always closely tied to shareholder returns, the LongView Funds have offered proposals to tighten the connection between pay and performance. A resolution to that effect gained a majority at Novellus Systems and received 49% of the vote at **Citigroup**. A proposal to require directors and senior management to hold 75% of their option shares throughout their tenure came up short at **HCA Corp.**, where there had been a huge sell-off of shares by executives and directors in 2005.

The LongView Funds’ activity this year was not confined to shareholder resolutions at individual companies. In response to a proposal by the Securities and Exchange Commission to provide shareholders with better disclosure of a company’s compensation practices, the Funds filed comments urging greater transparency about a variety of forms of compensation that are not adequately disclosed at the present time. The SEC is expected to issue final rules on this issue in the second half of 2006.

### **Corporate Governance.**

A major focus of the LongView Funds’ activism is promoting accountability by the board of directors. To this end, and to enhance accountability to shareholders, the Funds continued their effort to end “classified” boards, where directors are elected to staggered, multi-year terms, and instead to elect all directors annually. One sign of the respect that the LongView Funds are held within the shareholder community is the fact that, after shareholders of **Genzyme Corp.** approved a Funds-sponsored board declassification proposal in 2005, Genzyme invited the Fund to make a presentation before the governance

committee of its board of directors about why the proposal should be adopted. Such invitations from a board of directors are rare, but may become more common in the future. Following the meeting, the Genzyme board decided to recommend that shareholders declassify its board at the 2006 annual meeting, and the proposal was adopted.

In response to declassification proposals at other companies, **J.C. Penney** also decided to recommend board declassification to its shareholders, and the proposal was adopted in 2006. The Funds withdrew declassification proposals at **Progress Energy** and **ChoicePoint** after those companies advised that they were planning to initiate the reform on their own. Non-binding declassification proposals were adopted at **Cambrex, Sybase, Tollgrade Communications**, and **United Rentals**, and the Funds will be monitoring how these companies follow up on those proposals.

The LongView Funds had a constructive dialogue with **Unisys**, which agreed to two significant governance reforms: a requirement for shareholder approval if the company's poison pill is extended and adopting a policy that directors would be elected only if they achieved a "yes" vote from a majority of the votes cast at a given meeting. This "majority vote" reform is quickly growing in support, and the Funds continue to support the concept at other companies.

On a separate topic, the LongView Funds have also focused on the lack of voting rights that shareholders enjoy at companies having two classes of stock. Such companies typically have one class of stock that is closely held (often by the company's founder or family) and that has significant voting power. The other class is publicly traded, but with fewer voting rights per share.

The need for such scrutiny is illustrated by the LongView Funds' experience in 2006 at **Vishay Intertechnology**. In response to the Funds' proposal to move to a one-class stock structure, the Vishay board (dominated by the founder and his family members) proposed instead to add a third class of stock, to further limit shareholder power. In response to a significant negative reaction from shareholders, the three-tier proposal was withdrawn on the morning of the annual meeting. The LongView proposal received 25% support – a very high showing and a sign of the need for this company to pay more attention to its public shareholders.

The Funds launched an innovative effort at **CA, Inc.** (formerly known as Computer Associates), a company that saw seven top executives (including the CEO, CFO and General Counsel) plead guilty to criminal charges in connection with an accounting scandal earlier this decade. The Funds are proposing to remove two directors who served on the board during the period when the accounting fraud occurred, but did not act decisively to resolve the problem. The Funds have argued that this failure to get CA's problems resolved at an early stage have hampered CA's recovery and contributed to the fact that CA stock is

trading at levels below where it was ten years ago. CA persuaded the SEC staff to permit the company to exclude the proposal from its proxy materials. Given the importance of the issue, the Funds have asked the full Commission to review that decision. No ruling has been made on the Funds' appeal.

Another problem that the Funds addressed this past year was overcommitted directors who serve on too many boards. The Council of Institutional Investors has published standards that would limit the number of boards on which a given director may serve. One company that had several directors who exceeded that threshold is **Lifepoint Hospitals**. In response to a shareholder proposal, the company changed its policy, and several directors reduced their commitments to companies.

### **Business Standards.**

The LongView Funds believe that companies have an obligation to shareholders to anticipate and respond to potential developments that could affect corporate reputation and with it, shareholder value. These proposals will often not obtain a high vote total, but the submission of such shareholder resolutions means that companies are obliged to address the underlying concerns and explain to shareholders what management is doing to address the situation.

In 2004 Congress passed the American Jobs Creation Act, which contained a special tax break designed to encourage companies to "repatriate" tax dollars being held at overseas subsidiaries. The idea was that companies would get a lower tax rate if they used the billions of repatriated dollars to create jobs at home. In response to media reports that some companies were taking multi-billion tax breaks while laying off U.S. workers, the Funds filed a series of proposals asking companies to report publicly how they were implementing the domestic job creation goals of the Act. **Colgate-Palmolive, National Semiconductor Corp.** and **Sun Microsystems** agreed to provide greater disclosure to shareholders over the next few years, and the proposals were accordingly withdrawn.

On other topics, the Funds also pressed **DuPont** for a report on the feasibility of expeditiously phasing out PFOAs, a product used in Teflon that has been associated with environmental and health hazards. The proposal obtained 29% of the vote, the highest percentage to date for a measure of this kind. **American Financial Group** was asked to prepare a report on its policies with respect to political contributions. The measure obtained 20% of the vote, a high percentage given 30% ownership of the stock by members of the founding Linder family.

<b>2006 LongView Proposals</b>		
<b>Company</b>	<b>Issue</b>	<b>Results</b>
<b>Executive Compensation</b>		
Morgan Stanley	Golden parachutes	55% yes vote
Citigroup	Pay for performance	50% yes vote
SPX Corp.	Golden parachutes	47% yes vote
Eastman Kodak	Clawback	7% yes vote
Novellus Systems	Pay for performance	52% yes vote
Allied Waste Industries	Golden parachutes	38% yes vote
HCA	Require executives to retain company stock	19% yes vote
Republic Services Group	Golden parachutes -- repeat	Withdrawn: Adopted LV proposal
<b>Shareholder Access to Governance</b>		
Tollgrade Communication	Declassify board of directors	79% yes vote
Vishay Intertechnology	Dual class/unequal voting rights	25% yes vote
Sybase	Declassify board of directors	77% yes vote
United Rentals	Declassify board of directors	68% yes vote
Cambrex Corp.	Declassify board of directors	93% yes vote
Unisys Corp.	Declassify board of directors	Withdrawn: Successful negotiations
JC Penney	Declassify board of directors -- repeat	Withdrawn: Adopted LV proposal
Genzyme	Declassify board of directors -- repeat	Withdrawn: Adopted LV proposal
<b>Board &amp; Management Accountability</b>		
American Financial Group	Political Disclosure	20% yes vote
CA Inc.	Remove directors from board	SEC appeal pending
Lifepoint	Overextended directors	Withdrawn: Adopted LV proposal
<b>Workplace Responsibility and Corporate Citizenship</b>		
Colgate-Palmolive	No tax breaks for job cuts	Withdrawn: Successful negotiations
National Semiconductor	No tax breaks for job cuts	Withdrawn: Successful negotiations
Sun Microsystems	No tax breaks for job cuts	Withdrawn: Successful negotiations
Dupont	Report on PFOAs	29% yes vote