

# The News Register

May 10, 2008

*This is Carole Lovell's third and last report on the San Antonio trip she and Tom Cotton made representing AASBCR<sub>SM</sub>:*

On Friday, April 25, we attended the 2008 AT&T Shareholders Meeting. The Southern New England Retirees - SRA president, JoAnn AlixGagain presented one proposal with Jane Banfield, president of ACER - AT&T Concerned Employees & Retirees standing beside her.

Following is that proposal and JoAnn's address. It received 42% of the vote.

**“RESOLVED**, the shareholders of AT&T, Inc. urge the Board to determine future awards of performance-based compensation for executive officers using a measure of earnings that excludes non-cash “pension credits” that result from projected returns on employee pension fund assets, and to report annually to shareholders on the specific financial performance measure used to award performance pay.”

““Mr. Chairman, shareholders, and fellow retirees, in recent years a substantial share of AT&T's reported earnings has not been cash flow from ordinary operations, but rather accounting rule income from “pension credits.” Because pension credits reflect neither operating performance – nor even actual returns on company pension assets – we believe these credits should not factor into performance-based executive compensation.

When this resolution was submitted by one of its co-sponsors to the pre-merger AT&T, the Board's Compensation and Employee Benefits Committee adopted it as an executive compensation policy (February 23, 2004). The Committee stated, in the 2004 proxy statement, that “[w]e are joining many other companies which are adopting similar compensation policies, which our Board believes comport with evolving best practices for executive compensation.”

Unfortunately, the policy was not included in AT&T's post-merger Corporate Governance Guidelines. We believe it should be.

Pension income is simply not a good measure of management's operating performance. Pension credits are not even based on actual investment returns, but on the "expected return" on plan assets and other assumptions set by management.

For example, SBC Communications (which merged with the "old" AT&T) used non-cash pension credits to add \$1.14 billion to reported operating income in 2002.

Similarly, management at the pre-merger AT&T added \$1.3 billion in pension credits to earnings in 2000 through 2002 based on a *projected* \$5 billion net gain on pension investments. In 2000, pension credits of \$775 million accounted for nearly one-fifth (19.7%) of AT&T's pretax income.

In reality, AT&T's the pension trust actually *lost* \$2.9 billion over this three-year period. Meanwhile the pension surplus deteriorated from \$9 billion surplus to less than \$1 billion by year-end 2002.

According to a *Wall Street Journal* report (June 25, 2001), "companies can use pension accounting to manage their earnings by changing assumptions to boost the amount of pension income that can be factored into operating income."

An Institutional Shareholder Services (ISS) issue brief explained that "although in many cases pension assets plummeted in value, non-cash 'pension credits' boosted not only reported earnings, but also performance-based executive pay." ["Cookie-Jar Accounting: Pension Credits Plump Executive Pay," ISS, April 2002.]

Because AT&T's management retains great discretion over the assumptions used to calculate pension credits, we believe that excluding this accounting rule income from calculations of executive pay will help to assure shareholders that this discretion will not lead to conflicts of interest.

In addition, if incentive pay formulas encourage management to skip cost-of-living adjustments expected by retirees, or to reduce retirement benefits expected by employees (as we believe AT&T did in switching to a cash balance pension plan), in our opinion AT&T's ability to recruit and retain experienced employees could be undermined.

Please VOTE FOR this resolution.”

---

The Association of Ameritech/SBC Retirees represented by me with Monte Baggs from the TelCo Retirees – representing all retirees from the former Pacific Telesis/SBC – standing beside me presented a second proposal.

Following is our AASBCR<sub>SM</sub> proposal and my address. It received 44% of the vote.

**“RESOLVED**, the shareholders of AT&T hereby request that the Board include, as a voting item printed in the proxy statement for each annual meeting of stockholders, an advisory resolution proposing that stockholders approve or disapprove the compensation of the named executive officers as set forth in the proxy statement's Summary Compensation Table (the “SCT”) and the accompanying narrative disclosure of material factors provided to understand the SCT. The board's proposal shall make clear that the vote is advisory and will not abrogate any employment agreement.”

“Mr. Chairman, AT&T Board of Directors, officers, fellow stockholders, and guests, my name is Carole Lovell representing the Association of Ameritech/SBC Retirees Inc., former Bell System, Ameritech, SBC, and AT&T employees. Standing with me is Monte Baggs from TelCo Inc. representing former Pacific Telephone, Pacific Bell, Nevada Bell, SBC, and AT&T employees. Our groups and many of our members are stockholders of AT&T.

This initiative provokes questions concerning whether executive pay is truly commensurate on performance, and allows stockholders to voice their opinion by voting yes or no.

We recognize the traditional methods of communication available to make our individual ideas and opinions known but they are inadequate to properly address this broad issue which has such a large impact on our corporation's well being. The process we propose offers an easy and direct method for stockholders to communicate with the key decision makers. The results of the vote are simple to report, to the point, and go directly to those involved in the executive compensation decision-making process. This proposal insures recognition, accuracy, efficiency, and commands importance in its advisory capacity.

This is very important to us. Retirees have more than capital invested in the AT&T Corporation. We have invested all of the most productive years of our lives to build this telecommunications miracle that empowers and binds people and businesses together across this country and throughout the world. We didn't lose the love for the fruits of our labors when we retired. We still care deeply for the business that we built and still own. We are concerned and want to help assure its long term viability. Our shareholder proposal will help.

We have observed that temptations for immediate gratification have led, from time to time, to unsound business decisions and actions that many judge to be encroaching on the unethical. A typical example is management's inept handling of the health care benefits that retirees worked so many years to earn. This proposal will help temper this insatiable desire for immediate gratification by bringing executive compensation into the sunlight and allowing the owners of the business to express their judgment in a very public way.

Please vote to approve this proposal. Thank you."