

MEMORANDUM

April 4, 2016

TO: Louise Novotny
FROM: Tony Daley
RE: Shareholder recommendations – AT&T

1. Date: **April 29, 2016 9:00 AM local time**
2. Location
 - a. Northern Hotel
 - b. Grand Ballroom
 - c. 19 North Broadway
 - d. Billings, MT 59101
3. Proposals
 - a. Election of 12 Directors (#1 on proxy) – Management proposal
 - i. This is a vote for individual directors
 - ii. EVALUATION
 1. **VOTE CONSCIENCE**
 - b. Auditor (#2 on proxy) – Management proposal
 - i. This is a vote to approve Ernst & Young as auditor
 - ii. EVALUATION
 1. Ernst & Young has been the auditor for AT&T and previously SBC since at least 1995. The wisdom in corporate governance circles is that such lengthy relationships become incestuous.
 2. **VOTE AGAINST**
 - c. Advisory approval of executive compensation (#3 on proxy) – Management proposal
 - i. Asks that shareholders approve the pay and the method of paying total 5 executives in company
 - ii. EVALUATION
 1. AT&T is typically considered to be overpaying its executives
 2. **VOTE AGAINST**
 - d. Approval of 2016 Incentive Plan (#4 on proxy) – Management proposal
 - i. Plan replaces 2011 Incentive Plan
 - ii. Plan permits company to reward managers with equity and cash awards
 - iii. Company expects top 7,000 managers to be eligible
 - iv. Plan authorizes issuance of 90 million shares over a 10-year period
 - v. Evaluation
 1. The proposal extends the excesses shown to the top 5 executives to the next tiers
 2. This generosity does not show up at the bargaining table

3. VOTE AGAINST

- e. Political spending report (#5 on proxy) – Proposal from Domini Social Equity Fund
 - i. Requests that company produce a report every six months on political expenditures – direct expenditures and indirect (through trade associations). Report should include the amounts given and recipients. Report should also disclose the names and titles of those in AT&T who authorized payment. Report does not need to include expenditures on lobbying.
 - ii. EVALUATION
 - 1. This is a good governance proposal supported by many shareholder activists.
 - 2. AT&T already publishes a semi-annual report on political expenditures. Not as detailed as what is requested and it does not include indirect expenditures

3. VOTE FOR

- f. Lobbying report (#6 on proxy) – Proposal from Walden Asset Management
 - i. Requests that company produce an annual report on lobbying policy – direct, indirect (through trade associations) and grassroots lobbying communications. Report should also include direct and indirect expenditures as well as payments to grassroots organizations. In this report AT&T should disclose membership in any organization that produces model legislation. The report should detail decision making process on why expenditures made and why company decided to affiliate with other organizations.
 - ii. EVALUATION
 - 1. This is a good governance proposal
 - 2. It gets at membership in ALEC which has produced nasty model legislation on Right to Work among others pieces of legislative mischief

3. VOTE FOR

- g. Independent board chairman (#7 on proxy) – Proposal from unknown shareholder
 - i. Requests that the Chair be an “independent” member of the Board – in other words, not employed by AT&T. This proposal gets a high percentage from institutional shareholder because it curbs conflicts of interest. Both the Council of Institutional Directors and Calpers recommend independent board chairs.
 - 1. This is a good governance proposal
 - 2. **VOTE FOR**