

TRANSCRIPT

marketplace  of ideas



featuring Blockbuster Chairman and CEO

JAMES KEYES

On Say on Pay

NOVEMBER 13, 2008
THE HARVARD CLUB
NEW YORK CITY

**DRUM
MAJOR**
INSTITUTE FOR PUBLIC
POLICY

**THE DRUM MAJOR INSTITUTE FOR PUBLIC POLICY
MARKETPLACE OF IDEAS SERIES**

GIVING SHAREHOLDERS A “SAY ON PAY”

SPEAKERS:

HON. WILLIAM C. THOMPSON

New York City Comptroller

TIMOTHY SMITH

Senior Vice President, Walden Asset Management

VONDA BRUNSTING

Assistant Director, SEIU Capital Stewardship Program

Introduction by **HON. DAVID YASSKY**

New York City Council

Moderated by **ANDREA BATISTA SCHLESINGER**

Executive Director, Drum Major Institute for Public Policy

ABOUT DMI'S “MARKETPLACE OF IDEAS” SERIES:

Never content just to argue theory, the Drum Major Institute provides a platform for policymakers who have successfully worked for social and economic fairness in our public institutions. For far too long the conservative right has defined the limits of what is “possible” in society and politics. The “Marketplace of Ideas” shows that we can transcend these artificial boundaries: it is possible to be progressive, practical, and effective. Previous speakers in the series have included New Jersey Governor Jon Corzine, who signed family leave insurance into law in his state; Boston Mayor Thomas Menino, who catalyzed the rehabilitation of abandoned buildings into affordable housing; Minnesota Attorney General Lori Swanson, who initiated tough standards to crack down on predatory mortgage lending; and Dallas District Attorney Craig Watkins, who transformed the prosecutor’s role to include a focus on exonerating the innocent.

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PANELISTS AND SPEAKERS

JAMES W. KEYES is chairman and chief executive officer of Blockbuster Inc. (NYSE: BBI, BBI.B), one of the world's leading providers of in-home movie and game entertainment with reported worldwide revenues of more than \$5.5 billion in 2007 and more than 7,700 stores throughout the Americas, Europe, Asia, and Australia. A 21-year veteran of 7-Eleven Inc., the world's largest chain of convenience stores, Keyes served as its president and CEO from 2000 until 2005. Under his leadership, the company experienced record sales and profits and implemented new retail systems technology that improved product assortment decisions in every store. He also ushered in a new era for 7-Eleven through the introduction of a host of new electronic services. Prior to serving as president and CEO, Keyes held a variety of positions at 7-Eleven, including chief financial officer and executive vice president and chief operating officer. Keyes retired from 7-Eleven upon the sale of the company in 2005. Keyes graduated cum laude and Phi Beta Kappa with a Bachelors degree from the College of the Holy Cross in Massachusetts and earned an MBA from Columbia University. Keyes serves on numerous civic boards, including the national board of governors of the American Red Cross, the Dallas Center for Performing Arts, the Dallas Symphony Association, the Cooper Institute, the SMU/Cox School of Business and the Dallas Education Foundation. A recipient of the Horatio Alger Award in 2005 and the Ellis Island Medal of Honor in 2008, Keyes was also the founder of the Education is Freedom foundation, which provides college scholarships for hard-working young students.

HONORABLE WILLIAM C. THOMPSON, JR. became New York City's 42nd Comptroller on January 1, 2002. He was re-elected in November 2005 and began his second term on January 1, 2006. A lifelong resident of Brooklyn, Thompson is the son of a judge and a public school teacher. He is a proud product of the New York City public school system. Thompson has used the powers of his office to aggressively safeguard the City's finances, seeking out savings and rooting out waste. Thompson has earned a reputation as a tough advocate for New Yorkers. He has stood on the side of working people seeking a living wage and fairness on the job. As custodian and investment advisor to all five of the City's pension funds, Thompson manages a combined portfolio of more than \$105 billion. In this role, he has invested hundreds of millions of dollars in affordable housing and commercial real estate in New York City, helping increase housing and job opportunities within the five boroughs. Thompson has demonstrated a serious commitment to fostering opportunities for women- and minority-owned firms to conduct business with New York City, with a particular focus on capital market activities. Under his leadership, the amount of New York City Pension Fund assets managed by women- and minority-owned firms has more than tripled to approximately \$3.7 billion. Thompson has been a leader among institutional investors in advancing important corporate governance and corporate social responsibility reforms such as the repeal of the classified structure of corporate boards and the annual election of directors,

the establishment of a board protocol for addressing shareholder proposals that win majority votes, a prohibition against workplace discrimination based on sexual orientation and gender identity, the adoption of stronger standards of director independence for members of key board committees, as well as the adoption of standards for the protection of the environment and human rights globally. He also worked with leaders of the financial services industry in bringing about reform at the New York Stock Exchange. Thompson graduated from Tufts University, where he currently serves as a member of the Board of Trustees. He was appointed to the New York City Board of Education in 1994. Two years later, he began the first of five consecutive terms as its President. He also served as a Senior Vice President for Public Finance at an investment banking firm in the early 1990s. Thompson lives in Bedford-Stuyvesant, Brooklyn.

TIMOTHY SMITH serves as Senior Vice President of Walden Asset Management's Environment, Social and Governance Group. Walden Asset Management is the socially responsible investment division of Boston Trust & Investment Management, an employee-owned firm based in Boston. Tim joined Walden in October 2000. His primary responsibilities include overseeing shareholder advocacy and public policy, assisting in client services, and acting as the spokesperson for Walden on social issues. Walden Asset Management manages approximately \$1.7 billion for individual and institutional clients. Walden has been a national leader in responsible investing for over 35 years working on dozens of issues such as the environment, sweatshops, climate change, Apartheid in South Africa, executive compensation, corporate governance, and equal employment opportunity in the U.S., among others. Previously Tim served as Executive Director of the Interfaith Center on Corporate Responsibility (ICCR) for 24 years. ICCR coordinates action for some 275 religious institution investors bringing social concerns to corporations' attention and assisting religious investors with their responsible investing decisions. In December 2007 Tim was named by the Ethisphere Institute as one of top 100 most influential people in Business Ethics. Tim is immediate past Chair of the Board of the Social Investment Forum, the industry association for socially concerned investors, where he served for 5 years. In 2008 Tim was elected as a Board member of the General Board of Pension and Health Benefits of the United Methodist Church, one of the largest pension funds in the U.S., with approximately \$16 billion of assets under management. Tim has a Masters in Divinity from Union Theological Seminary and a BA from the University of Toronto.

VONDA BRUNSTING is the Eastern Region Director for the Capital Stewardship Program of the Service Employees International Union. SEIU's Capital Stewardship Program seeks to ensure that their members' \$1 trillion in pension fund assets are managed in a manner consistent with their long-term economic interests and financially sound investment policies. Her work includes training and support for the trustees that represent SEIU beneficiaries on the boards of public and Taft-Hartley pension funds and coordinating the union's work on corporate governance. Prior to SEIU, Vonda Brunsting co-founded two community organizations devoted to

leadership development and community change and worked on community finance initiatives at the University of New Hampshire and Harvard Business School. She received her undergraduate degree from Calvin College and a Masters degree from the University of Chicago.

HONORABLE DAVID YASSKY is serving his second term in the New York City Council. He is among the Council's leading advocates for education reform, affordable housing, crime prevention, waterfront revitalization and the environment. The Democratic Leadership Council named Yassky one of the "Top 100 New Democrats to Watch" in the nation and "Democrat of the Week". He was endorsed by *The New York Times* and was called "the textbook definition of the sort of person who can change the council for the better" by Michael Tomasky of *New York Magazine* and "one of the Council's ablest members" by Tom Robbins of *The Village Voice*. Yassky has compiled an impressive record of legislative achievement in the City Council. David authored the Film Industry Job Creation Act, credited with bringing thousands of jobs to New York's film and television studios, and pushed through the Council a plan to make Downtown Brooklyn the City's third major business district. He created an Industrial Jobs Retention program to fund dedicated, low-cost space for manufacturing firms. Before his election to the Council, Yassky had a distinguished career as a public servant, lawyer, and educator. Working under Rep. Chuck Schumer, he helped enact the Brady Law, the Assault Weapons Ban, the Violence Against Women Act, and more than a dozen other significant anti-crime statutes. At the time, he was the youngest Committee or Subcommittee Chief Counsel in the House of Representatives. Yassky also taught at Brooklyn Law School. He is a graduate of Princeton University and Yale Law School. He lives in Brooklyn with his wife Diana and their daughters Susan and Margaret.

ANDREA BATISTA SCHLESINGER has led the effort since 2002 to turn the Drum Major Institute, originally founded by an advisor to Rev. Dr. Martin Luther King, Jr. during the civil rights movement, into a progressive policy institute with national impact. Under Andrea's leadership as Executive Director, DMI has released many important policy papers to national audiences including: 'Congress at the Midterm: Their Middle-Class Record' and 'Principles for an Immigration Policy to Strengthen and Expand the American Middle Class.' Andrea studied public policy at the University of Chicago. She has worked in various capacities to promote educational equity and youth empowerment. She directed a national campaign to engage college students in the discussion on the future of Social Security for the Pew Charitable Trusts, and served as Director of Public Relations of Teach For America before working as the education advisor to Bronx Borough President Fernando Ferrer. Andrea has been profiled in *The New York Times*, *The New Yorker*, *Latina Magazine* and in 'Hear us Now,' an award winning documentary about her tenure as the student member of the New York City Board of Education. She has appeared on the 'Lou Dobbs Tonight' show on CNN and has been published in *New York Newsday*, *Crain's New York Business*, *The Mississippi Sun Herald*, *New York Daily News*, *Altnet.com*, *Tom Paine.com*, *New York Sun*, *Colorlines Magazine*, *The Chief-Leader*

and *City Limits* magazine. She is a contributor to The Huffington Post and on the Editorial Board of *The Nation*. She was named a '40 under 40 Rising Star' by *Crain's New York Business* and a 'Next Generation of Political Leaders in New York' by *City Hall Newspaper*. She received a LatinaPAC Dolores Huerta Award for 'making great strides in promoting progress in our community. Andrea is the author of *The Death of "Why?": The Decline of Questioning and the Future of Democracy* forthcoming in June 2009 from Berrett-Koehler Publishers.

TRANSCRIPT

The transcript from this event has been edited for length and readability. Internet links are provided in footnotes throughout this transcript as resources for readers seeking to better understand the policy discussion. While we hope they are helpful, the Drum Major Institute for Public Policy is not responsible for the content or continued functioning of these links.

HON. DAVID YASSKY: Good morning, fans of new creative ideas and progressive public policy. My name is David Yassky. I serve in the City Council here in New York. I represent a district in Brooklyn, and I am very pleased to be here this morning to thank you for joining the Drum Major Institute for Public Policy and to welcome a very distinguished group of speakers and panelists.

I just want to say a word about the Marketplace of Ideas speaker series that has been, I think, as productive as anything like it in bringing new ideas to light. The goal of the series is to highlight ideas that have worked across the country and spread the word around. In government, I think this is one of our weak spots we need to improve on. In medicine and science, when there is a new technology, a new innovation, it spreads immediately. In government, somebody could be doing something really well and really smart for years before other people pick it up. So DMI has chosen to remedy that problem and has been very successful with ideas ranging from civil justice reform or making civil justice more accessible and lowering the price of prescription drugs to reducing recidivism. Andrea Batista Schlesinger deserves enormous credit for what they have done.

This morning's DMI series welcomes James Keyes who became chairman and CEO of Blockbuster Inc. in July 2007. We are going to hear from Mr. Keyes shortly. You know Blockbuster is the world's leading provider of in-home movie and game entertainment. Many of us are customers. I was pleased not because I am such a movie fan, but because Mr. Keyes has such innovative ideas on new products and business models and corporate governance. For the first time in 2009, the company's shareholders are going to let the Blockbuster board know if they approve

or disapprove of Mr. Keyes's compensation package. They will be voting on the pay of other top executives, too, and while a vote will not require the board to take any particular action, it is likely to influence the way business is done.

During bad economic times like these, good corporate management is more important

than ever. Across the country we are seeing shrinking nest eggs for shareholders who depend on their investments to retire securely or to help their kids go to college. While some investment loss is probably inevitable during a downturn, it is much worse when a company is mismanaged and the executives responsible for poor corporate performance continue to reap tremendous rewards. "Say on Pay" may

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—Councilmember David Yassky

help prevent that from happening. So I am very eager to hear what Mr. Keyes has to say about the reforms he is overseeing at Blockbuster.

We will also hear today from a very distinguished panel about the lessons other companies and policymakers can learn from this. New York City Comptroller Bill Thompson is here. He has been a leader in using his position as shareholder-in-chief to promote corporate governance reform and good government strategies in corporate governance.

We are also joined by Vonda Brunsting, the Eastern Region Director for the Capital Stewardship Program of SEIU, the Service Employees International Union. And finally, by Timothy Smith, the Senior Vice President of Walden Asset Management. Together, our panel represents hundreds of thousands of shareholders with an interest in good corporate policy. So thank you again for being here today. I am pleased to introduce you to James Keyes.

JAMES KEYES: It is a great honor to be here. I will tell you a little insight. A thousand percent of my energy is focused on Blockbuster in these challenging times. We are in a transformation, trying to turn around the company. I am not doing speaking engagements, and yet, as you can imagine, I receive a number of invitations. When we received this one, the deciding factor was the Drum Major Institute. It was an organization that we thought we should come and be a part of because of its goal of being progressive and practical and effective. And I said I am progressive, I am practical, I am effective. I need to go talk to these people.

Opportunities to become closer to the shareholder through measures like "Say on Pay" are yet another step in building credibility and trust in the investment community.

—Blockbuster CEO James Keyes

So I said, sure, let's do this. Then about a month later after accepting the invitation, I received the topic: executive compensation. Did we know this beforehand? Because what is there that is practical, progressive and effective about executive compensation? I am not sure I have much to say about this topic. My team assured me that as an investor, a shareholder, a member of the executive team, and chairman of Blockbuster, I did have a lot to say about this topic. It is a bit unusual, and I come to this opportunity from a bit of an unusual path and perhaps that is why.

But it gives us a unique opportunity to take a leadership role here in an important area of corporate governance. We want and we are committed at Blockbuster to transforming the company, and I recognize that we have to transform it in the eyes of the customer. For those of you who have paid late fees and all these other things over the years, we have got some work to do to re-establish credibility and trust in your eyes as customers. But at the same time, we have to transform the company in the eyes of the shareholder and the investor. We have to build credibility and we have to build trust or transparency. Opportunities to become closer to the shareholder through measures like "Say on Pay" are yet another step in building credibility and trust in the investment community.

To begin, before talking more specifically about “Say on Pay,” I was asked to give you a little bit of background on myself and why this was such an easy decision for me as chairman of Blockbuster to support. I have to take you back in history because we are all products of our personal experience. I came from a previous opportunity, after 21 years at 7-Eleven¹, having the privilege of leading the 7-Eleven Corporation for many years prior to coming to Blockbuster, I had the experience in that organization of coming up from within the company. Because of this, of course, I was always getting caught up. I was always paid a bit less than the people that would come in from the outside, who were recruited from the outside. So I always felt like I was a bit of a second-class person within because someone that was new to the company, perhaps in the same role, was making more than I was because they had been recruited.

[H]aving a more practical-based salary and a much more incentive-based, equity-based compensation actually helped me a lot.

—Blockbuster CEO James Keyes

So I understood that coming through the ranks of the organization and perhaps was more sensitive as leader of the organization to these kinds of balance issues in the marketplace. I also had

a unique experience at 7-Eleven because our largest licensee in Japan became a majority shareholder at one point in the company. So I had a lot of interaction with my Japanese counterparts and was able to, as we are with global companies, learn best practices worldwide. And I was fascinated with some of the things that worked so well in Japan. One of the things that they had adopted was a principle for compensation that said that the senior officer of the company should make no more than about 20 to 25 times what the lowest level management person in that corporation made. It was sort of a balancing act. There were no rules; it was sort of an unofficial metric, rule of thumb, if you will.

What I discovered was in the organization, particularly a retail organization, you are dealing with store managers, you are dealing with franchisees. A more practical-based salary was actually very helpful to me in being able to communicate with franchisees. Because if they were going to read in the press that I was making several million dollars per year and they were struggling at \$50,000 a year in their store, it was pretty hard to relate. So having a more practical-based salary and a much more incentive-based, equity-based compensation actually helped me a lot internally. So I learned a lot in that experience at 7-Eleven.

After 21 years, we did sell the company to that larger shareholder, our Japanese partners, and I found myself in a situation where all of a sudden I could take a little time off, having worked every minute of my life that I could recall. I had a bit of time to actually relax and enjoy life for about a year, and then was foolish enough, as my wife would characterize it, to want to get back in the game because I loved what I did. I looked across the landscape. I realized I loved retail. I love the idea of transforming a company. And as I looked for opportunities, I saw Blockbuster

was a terrific opportunity because it was a chance for me to take another retail concept and help to transform it in both the eyes of the customer and the eyes of the shareholder.

So I looked at this opportunity as a chance to come in and create change, and create change not just as an employee. Perhaps I had the privilege of having had a good career previously and had more financial flexibility than most. But I came into this opportunity looking at it as a chance to create value. And I knew that if I created value for the corporation, then value would in turn accrue to me personally. So I could come at it more as an employee. As a result, I approached the board and I approached the company and suggested a compensation package that was a bit unusual. I could have worked perhaps for a dollar a year salary. I chose not to do that. I chose a somewhat normal salary but took a salary base that is in the 25th percentile. It was actually a bit below that, I believe, when I started. It is probably lower now because it was a three-year base salary structure. And I agreed that all of my incentive would be based on equity, equity appreciation opportunity in the form of stock options. So a hundred percent of my bonus, any incentive that I get, is all based on equity. I get virtually no perks, if you will. There are no country clubs, there are no other fringe benefits. I did not need any of that stuff. Let us just keep this clean, let us keep this very simple and straightforward.

I am dealing with store managers, five thousand stores. They make on average \$45,000 to \$50,000 a year. It is easier to relate to them if they are not reading in the paper about a big extravagant salary and perks and all this other stuff. But I also knew I had a challenge with the shareholder. I had to rebuild trust and confidence in the investment community.

—Blockbuster CEO James Keyes

Now, why did I want to do this? I wanted to do this for a couple of reasons. One, it was easier then with the employees. I am dealing with store managers, five thousand stores. They make on average \$45,000 to \$50,000 a year. It is easier to relate to them if they are not reading in the paper about a big extravagant salary and perks and all this other stuff. But I also knew I had a challenge with the shareholder. I had to rebuild trust and confidence in the investment community. For me to come out as an investor was an easier job.

So not only did I take this compensation package, but imagine this conversation. When I go home to my wife and say, now, I have decided to get back to work, and she knows work does not mean 40 hours, it means 90 a week for me. Because when I take a challenge, I throw myself completely into it. But then I had to explain to her that I was taking our nest egg and putting it back at risk because I invested in this company as well. I did not just come as an employee. I said I want to come in as an investor. I am going to look at this as if it was a private equity opportunity. I was balancing: do I go back into a public company or do I go to a private company. Well, what is the difference? There shouldn't be any difference but for the balance sheet, so why not look at this as if it were a private entity, and I am going to take my personal investment and reinvest it in the company. And this will give me such an advantage when talking with shareholders because I am one of them now.

¹ <http://www.7-eleven.com/Default.aspx>

That was the concept. A bit unusual. Again, I had the privilege of coming from a previous career where perhaps I could afford to do this, but I am also a bit of a student of good governance practices and believed that this would be an interesting experiment in my ability to communicate more effectively with the investor base.

[W]e decided to create a special committee that would meet with shareholders. So in the event that shareholders did not approve a compensation package, we did not have the right just to turn our back on that. We would actually agree to create a committee, meet with the shareholders, discuss it, and work out a resolution to the concerns.

—Blockbuster CEO James Keyes

So as a result, I came to the company with a much more aligned package. I came in knowing that I had to sell this new business strategy to the investment community and that I would be able to transform the company more easily, I thought, from this perspective. It is a very unusual package but it is one that I think works effectively for us. But then here I am in the new company, and I am three months into the

job, I am learning everything there is to learn, and I understand all of a sudden we have got a new provision that was brought up at the previous shareholder meeting called “Say on Pay.” I said “Say on Pay?” What’s this all about? I had never heard of it. So I learned more about it. And I will give you a little bit of history of how this came about because there has been a lot of publicity around this concept.

Blockbuster had previously been at the forefront of a lot of this executive compensation controversy, and I will give you a little background on that. Viacom was once the owner of the company, owned 100 percent of Blockbuster. Viacom spun the company out in 2004, and when it did it took the executive leadership team and did what many companies do in that kind of situation: structured an executive compensation package that was intended to retain employees. Well, retaining employees is expensive and that structure ended up being, from the shareholders’ perspective, a high cost as a result.

In 2005, Carl Icahn² joined the board of directors, became an investor in Blockbuster, and came in to do what he believed so strongly in: bring about change in the board. And he is a big proponent of shareholder rights, as you know, and sought to create that change. So here was this internal environment that became quite challenging, as you can imagine. Then from the outside, in December of 2006, the Comptroller of the City of New York, the esteemed William C. Thompson who is here with us this morning, had a good idea. He submitted a stockholder proposal that Blockbuster adopt the “Say on Pay” policy.

So here you have this perfect storm, this convergence of factors. And, of course I unwittingly came in from the outside into this whole swirling controversy over all of this stuff, and the first thing of course I did was send Mr. Thompson a nice letter saying, “I am here, no need for this stuff. Take a look at my compensation package—you think you have any problems with this? No way. You do not need

this ‘Say on Pay’ thing here.” I received a nice response back saying, “Yes, but we still think we need to do this because you could be here three years or thirty years or three months. So it is an important provision.” Of course, I took counsel. Everyone’s advice was you should not do this, you should not do this. Given where my compensation package was and the entire management team that I recruited, I wanted alignment among the senior management. So I brought in my team at this rough figure of about 25 percent base compensation salary, 25 percent of the norm, with much of their incentive tied to equity performance and the performance of the company. So, collectively as a management team, we said this is not a bad thing. There was nothing for us to be concerned about with this. In fact, it would be an opportunity here to take a leadership position and to go ahead and adopt this provision.

So in December of 2007, when Mr. Thompson again submitted the same proposal, we had the opportunity in our first shareholder meeting in March of 2008 for the new Blockbuster board to approve this policy, beginning in 2009. The only reason we did not actually adopt it in 2008 is our slate of officers included some of the previous employees, as well as the new officers. So we wanted the clean slate of new officers going forward, which is why we decided to adopt in the year 2009.

There is another interesting provision. Since this is a non-binding vote on “Say on Pay,” our board took yet another step and we decided to create a special committee that would meet with shareholders. So in the event that shareholders did not approve a compensation package, we did not have the right just to turn our back on that. We would actually agree to create a committee, meet with the shareholders, discuss it, and work out a resolution to the concerns.

So that is basically where we were and what we accomplished. Obviously there are some who see risks. One question that companies have raised about “Say on Pay” is: can companies attract and retain executives if shareholders have a say? Well,

in principle, yes, of course we can. It is not a problem. In practice, there are some challenges. For example, performance of the company, performance-based compensation, it is shareholder friendly but it is not always employee friendly in

“Say on Pay” performance-based compensation really is geared to employees for the long term. “Say on Pay” is not consistent with employees that are interested in the short-term, in jumping in and jumping out, in making a little money and leaving.

—Blockbuster CEO James Keyes

the near term. The times we are in right now, for example, are a good example: share price is not necessarily reflective of management’s efforts or a company’s performance. Blockbuster is a good example. We have just now turned in our third consecutive quarter of same-store sales increases for the first time in five years or more, which we think is a pretty big accomplishment in this retail environment, posting a 5 percent same-store sales increase. We doubled our [trailing] 12-month EBITDA,³ so we have actually doubled the profitability of the company in the last

² Carl Icahn is Chairman of Icahn Enterprises, a holding company, and is widely known as an activist investor.

³ Earnings Before Interest, Taxes, and Amortization.

12 months. Yet our stock price is at unprecedented lows. Unfortunately, we are not alone in this situation, with what's going on in the marketplace.

[T]here are clearly consequences for companies who ignore shareholders' wishes. ["Say on Pay"] is a voice. The voice of shareholders, specifically on this topic, is one that boards cannot ignore.

—Blockbuster CEO James Keyes

I happened to be at a function yesterday where Steve Balmer⁴ was asked something similar about the equity of Microsoft. And he explained, which was pretty interesting from his perspective, that he can control management and he can control operating results, but price earnings ratios are clearly

out of our hands. That is the only challenge we have when we have a structure that is so equity-based, so performance-based that it could perhaps create a disconnect between management and performance and shareholder value. There is a bit of a difference there sometimes.

The flip side of that is the short-term situation. My wife is my best guidance on this. I come home, I get frustrated about our equity value, and she reminds me of how many quarters it took. We ended up with 37 consecutive quarters of same-store sales increases at 7-Eleven over a 10-year period. By the time I left, I think it took 30 of those 37 consecutive quarters before Wall Street finally believed this was for real and that the company was, in fact, transformed and that they could safely invest. What happens with all companies, particularly companies in a transformation as we are, is that it does take time. And "Say on Pay" performance-based compensation really is geared to employees for the long term. "Say on Pay" is not consistent with employees that are interested in the short-term, in jumping in and jumping out, in making a little money and leaving.

So if you believe as I do that it is good to incentivize employees for the long term so they have incentive to stay, then this is a good thing and we shouldn't really have anything to fear about the "Say on Pay" type of provisions. Secondly, there are some who question the effectiveness, who claim that "Say on Pay" is symbolic. I counter that, saying that there are clearly consequences for companies who ignore shareholders' wishes. It is a voice. It does not need to be a hard vote, a hard yes or no. The voice of shareholders, specifically on this topic, is one that boards cannot ignore. So while perhaps some would say there are not enough teeth in the "Say on Pay" provisions, I would suggest that there are teeth in the fact that shareholders' voices must be heard. If we continue to ignore them, we are going to lose shares, we are going to lose shareholders' confidence and lose value over time. So I think there are sufficient teeth in the concept of providing shareholders with a voice on compensation.

Bottom line, there is a movement today for more companies to be better stewards and to look at shareholder value as our responsibility. The private equity firms that are out there are having a positive influence. They are creating a new kind of CEO,

people who are perhaps more sensitive to value creation and who come to public companies and are more likely to accept performance-based equity. So I think there is a good positive trend going on. At Blockbuster we think it is just good corporate governance to listen to our shareholders. As employees we recognize it is our role to serve as trustees for the people who own this company. If we have any chance of success, we recognize the importance of building that trust and credibility with, as I said in the beginning, both our customers and our shareholders. We think that adopting the "Say on Pay" policy reinforces that we take this trust very, very seriously. So Mr. Comptroller, thank you for the suggestion. Originally I was not excited about it, but I do believe it was the right thing to do, and we are glad to be a part of helping to improve corporate governance standards.

ANDREA BATISTA SCHLESINGER: Good morning. My name is Andrea Batista Schlesinger. I work for the Drum Major Institute. Thank you so much, Mr. Keyes, for sharing your experiences and insights. We have a terrific panel lined up to talk about the implications. I am going to introduce each one of them in turn and then just get the conversation started.

I will start with Comptroller Bill Thompson, who became New York City's 42nd comptroller on January 1, 2002. As custodian and investment advisor to all five of the city's pension funds, he manages a combined portfolio of more than \$105 billion. I feel badly that it used to seem like a lot more money before the bailout, but I guess it still is. Comptroller Thompson has been a real leader among institutional investors in advancing important corporate governance and social responsibility reform. So you have all of this money that you control. Why did you decide to put the power of that purse behind "Say on Pay?"

HON. WILLIAM C. THOMPSON: Well, I think that, first, New York City is probably the most aggressive public pension fund in the country. We have tried to embrace some new ideas over the time that I have been there and my predecessors as comptrollers have been aggressive also. It appeared to be the right thing to do, to be able to align the interests of shareholders along with management. It just seemed to make a lot of sense. First, let me congratulate Mr. Keyes for being an executive who can see the future. There are not many who can do that. We like to see executives who can see past today, and many of them cannot.

I did want to mention how Mr. Keyes talked about the Japanese and closing the gap between the workers and the executives. One fact, to give all of you an idea, in 1980 the ratio of average executive compensation to average production worker compensation was 40 to 1. By 1990, that ratio had doubled. By 2003, the ratio was 400 to 1. So the gap has widened over a period of time. It is just an attempt to try and align the interests of shareholders along with management. That was what we were trying to do.

4 Steve Balmer is the CEO of Microsoft Corporation.

[I]n 1980 the ratio of average executive compensation to average production worker compensation was 40 to 1. By 1990, that ratio had doubled. By 2003, the ratio was 400 to 1.

—Comptroller William Thompson

helped to make New York City's pension funds as aggressive as they are, Ken is that person. So it was kind of working together. I remember the exchange that we had between us before we introduced the shareholder resolution. It was the right thing to do. We are proud that we have done it. We continue to do that in other places. But it was kind of a collaborative effort to get that done.

ANDREA BATISTA SCHLESINGER: Next I want to introduce Timothy Smith who serves as Senior Vice President of Walden Asset Management's Environment, Social and Governance Group. He is recognized as the principal leader on this issue from a shareholder side. His primary responsibilities include overseeing shareholder advocacy, public policy, assisting in client services, and acting as the spokesperson for Walden on social issues.

With all of the conversation about executive pay often focused on how much they make—for example, Comptroller Thompson talking about this going from 40 to 1 to 400—is the issue of the process of how executive compensation is set. Which is really at the heart of “Say on Pay”: giving shareholders a non-binding vote on the executive compensation package or is it how much? Is the pay too much or is it a question of process? Is it the process by which pay is set? Those do not have to be mutually exclusive, but for the sake at least of the audience, can you tease that out a little bit so it is clear exactly what we are talking about here?

TIMOTHY SMITH: I think it is actually a blend. And you mentioned they are not necessarily mutually exclusive. It depends in part who the investors are that you are talking to and who the companies are that you are talking to. I just want to say that I am very pleased to be on this panel and to congratulate Blockbuster for their leadership and governance here and New York City for decades, truly decades, since the 1970's, of leadership on environmental, social and governance matters, for being an effective voice as an investor.

I am here on this panel today partly mirroring the concerns of a broad-based group of investors, who as I said might have different perspectives on your questions. They vary from New York City and TIAA-CREF⁶ and CalPERS⁷ to trade union leaders

I would love to be able to take credit and say it was my idea alone. Love to be able to do it except I always believe in trying to tell the truth. Ken⁵ is the Deputy Comptroller for Pension Policy, and when you talk about individuals in the country who have

like SEIU⁸ and AFSCME⁹. Rich Ferlauto¹⁰ is here, who was the pioneer of this issue several years ago. They vary from religious investors, investment managers like ourselves to foundations and individuals. And these investors had, and I think probably still do, well over a trillion dollars in assets under management as they are knocking on companies' doors and talking about this. Some of them would be concerned about the gross size of a pay package. I happen to think that Ray Irani¹¹ at Occidental Petroleum making \$456 million, that amount was not earned by Mr. Irani. It came to him as oil prices skyrocketed. So there are people who would stress that, but TIAA-CREF and others would say they are not opposed to large pay packages if they are properly linked to performance. And that is a very important ingredient here. I think that is a common denominator for all of the investors that are part of this mix. And these are investors who are not just writing letters and having conversations with companies.

As you heard, New York City actually sponsored a shareholder resolution to Blockbuster, and last year close to a hundred shareholder resolutions on “Say on Pay” were sponsored. And the average vote of those resolutions was about 44 percent. Now, Rich Ferlauto is a veteran in this, but even he and I were absolutely amazed that the outpouring of support for this has occurred so very quickly as shareowners are saying, “I want a voice, not control, but I want some influence on executive pay. When there are no real issues, I am glad to support the company and its management. When there are real issues, we want to have an ability to speak on this issue and maybe even vote against directors on the compensation committee who did such a poor job.” An example from the past couple of years was the compensation committee at Home Depot.

I think this is an issue whose time has come, so much so that we very much expect that within the next year or two this will be regulated, that Congress will act, and that we will have an advisory vote instituted.

—Timothy Smith

So just one other point here. This year there will be about a hundred companies receiving this resolution and we expect to see growing support. You do not get 44 percent of the vote just when you have New York City and a group of trade unions and religious investors voting for it. You have to have T. Rowe Price and Northern Trust¹² and some other very mainstream investors voting for it. I think this is an issue whose time has come, so much so that we very much expect that within the next year or two this will be regulated, that Congress will act, and that we will have an advisory vote instituted.

So we are encouraging companies at this point in time to act in a statesman-like way, to not wait for Congress to tell them you have got to do it because the compensation

5 Ken Sylvester is New York City's Assistant Comptroller for Pension Policy.

6 TIAA-CREF is an asset management firm that provides retirement planning for individuals in the academic, medical, cultural, and research fields.

7 The California Public Employees' Retirement System (CalPERS) manages retirement and health benefits for public employees, retirees, and families.

8 Service Employees International Union.

9 American Federation of State, County, and Municipal Employees.

10 Rich Ferlauto is the director of Corporate Governance and Pension Investment for the American Federation of State, County, and Municipal Employees.

11 Mr. Irani is CEO of Occidental Petroleum. See http://www.forbes.com/lists/2007/12/lead_07ceos_Ray-R-Irani_WJ7X.html.

12 T. Rowe Price and Northern Trust are investment advisory firms.

system is broken, but to stand up and say, “We are not afraid of our shareowners; they do own the company, after all. We welcome input from them and we are glad to give them a mechanism by which they can actually vote on the executive pay package annually.”

I will just give this as a case in point that I think will make Blockbuster feel quite calm about this. Aflac¹³ had its first advisory vote this last spring. It was a non-event. It was a very brave corporate governance reform that they instituted, but they got a 95 percent vote in favor. Why? It was clearly explained, the metrics were clear, and the pay package was reasonably tied to performance. It will become like ratifying the auditors for companies that have nothing to hide. For companies that have rotten pay packages, there is something to be worried about.

HON. WILLIAM C. THOMPSON: Just to throw something in here, I believe that when you talk about Congress passing legislation that will mandate this, I know that Congressman Frank¹⁴ has indicated that he is going to move forward on it. There was a bill introduced before in the Senate. Some guy named Obama had introduced it and I believe has indicated that it is something he is going to pursue in the White House also. So I would agree with you that this is something that if corporations do not adopt on their own, they can expect to see Congress moving along in the near future.

ANDREA BATISTA SCHLESINGER: Let me introduce Vonda Brunsting who is East Region Director for the Capital Stewardship Program of the Service Employees International Union. SEIU’s Capital Stewardship Program seeks to ensure that their members’ one trillion dollars in pension fund assets are managed in a manner consistent with their long-term economic interests and financially sound investment policies.

Can you talk about how this issue of “Say on Pay” fits within a broader conversation about the progressive movement, a broader conversation? Or a link for us between issues of corporate governance, like “Say on Pay” and questions of economic justice, which I know a lot of the folks who come to Drum Major Institute conversations are primarily interested in?

VONDA BRUNSTING: Let me say that our members participate in pension funds with a trillion dollars in assets. That is not all of our money. So I just do not want to get people too excited in the room. Those pension values unfortunately--

ANDREA BATISTA SCHLESINGER: So there will not be donations.

VONDA BRUNSTING: Right. So we actually have also been part of the coalition that Tim referred to to submit these resolutions on “Say and Pay.” We have encouraged our pension funds to be active owners because we think as shareowners this is

part of their fiduciary responsibility. But we also have tools to get at your question. I think most people have seen this incredible galvanizing effect of the bailout on this discussion. I grew up in a town in Michigan that is probably very similar, far more similar in fact, in outlook to Wasilla, Alaska. I do not agree much with my family on politics and we do not talk much about it at Christmas time, but when the bailout was unfolding, my father called me about this issue. He is a very mild-mannered man and he went on this tirade about executive compensation. And I agreed with every point that he made. I think among our members, we have been hearing it more and more.

Hopefully the era of the golden coffin and parachute is dead, but I think that [“Say on Pay”] is one way of keeping compensation more aligned with more responsible business practices.

—Vonda Brunsting

Over the summer, before the last market crisis, we actually launched what we call the war on greed in the private equity industry. I am not quite sure you want to import all of their models here because some of their pay packages were so outsized that if you look at the 400 to 1 ratio, it is nothing when you look at some of the private equity titans, many of them here in New York City. People like David Rubenstein¹⁵ and Bruce Wasserstein¹⁶ and Henry Kravis¹⁷, they are making \$50,000 an hour. And the portfolio companies that they control through the private equity firms employ our members or our potential members who are making slightly better than minimum wage with no health care benefits.

So this discussion I think is very appropriate, and the shareholder tool is a very good one to use. But I think that there will be action in Congress and I think that ordinary people across the country have just really captured this. And maybe it is because the bailout is so complicated and no one understands what CDOs are, but we understand when people are making this kind of money and we are losing our homes and our cars and our jobs and the executives are walking away with these packages. Hopefully the era of the golden coffin and parachute¹⁸ is dead, but I think that this is one way of keeping compensation more aligned with more responsible business practices.

ANDREA BATISTA SCHLESINGER: Just for clarification’s sake, the bill which President-elect Obama introduced¹⁹ requires companies to ask their shareholders whether they want to do “Say on Pay.” It does not mandate “Say on Pay.” It requires publicly owned companies to say to their shareholders: Do you want to have “Say on Pay?” It does not say you must.

¹⁵ David Rubenstein is a co-founder of The Carlyle Group, a large private equity firm.

¹⁶ Bruce Wasserstein is Chairman and CEO of Lazard Group, a financial advisory and asset management firm.

¹⁷ Henry Kravis co-founded Kohlberg Kravis Roberts, a private equity firm.

¹⁸ “Golden coffin” and “golden parachute” payments refer to payouts to senior management officers upon their death and upon termination of their employment, respectively.

¹⁹ See http://fwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:s1181is.txt.pdf.

¹³ Aflac is a health and life insurance company.

¹⁴ Representative Barney Frank of Massachusetts is the Chairman of the House Financial Services Committee.

HON. WILLIAM C. THOMPSON: Just a little amendment on that. It is not mandatory, you are right, but the congressional legislation will mandate that you are required to have an advisory “Say on Pay” vote on the proxy every year like you would if you were ratifying the auditors. But it is not a mandatory vote, meaning it does not bind the company.

ANDREA BATISTA SCHLESINGER: So we like to bring in other perspectives, so I am going to *Capitalism Magazine*.²⁰ In *Capitalism Magazine*, there is a take on “Say on Pay” which was critical and I want to engage you [Comptroller Thompson] and perhaps Mr. Keyes in this conversation here. Their view is that there are three ways for shareholders to exercise their feelings about executive compensation. One, you vote with your dollars by selling shares. So if you do not like executive compensation, you sell your shares and you are out. Two, you accumulate controlling interest in the company and you get a new board. Because ultimately—and we will get into this a little bit—a lot of this has to do with whether the board which ratifies these packages is really attentive. Or three, you persuade a majority of shareholders to replace the board. So that is their view, that those three things are sufficient. So you do not need “Say on Pay.”

So my question, genuinely, for the panel, is: could you speak to why those steps are not sufficient to allow for a shareholder voice in setting or advising on executive compensation. Comptroller Thompson?

HON. WILLIAM C. THOMPSON: I think that what they are basically saying is do nothing, do nothing, and do nothing. There are access issues moving shareholders and putting together a campaign to elect a few shareholders is incredibly expensive. Access issues, through the SEC and other places, have been defeated over a period of time. It really is incredibly difficult, not just one public pension fund, but for groupings of funds, for major shareholders, it is very difficult to be able to do that. So basically what they are saying is: do nothing.

TIMOTHY SMITH: I will add a point to that, too. We often hear companies, I think sincerely, say to us, “You already have a ‘Say on Pay’ in that you can unseat the board.” And I think some companies do that sincerely and others do it as a debating point. But our response back is that that is a very, very confrontational

way to deal with one issue with a company. If you have some problems with the compensation package, but it is not a total outrage like Home Depot²¹ was, you may not want to unseat qualified people who are serving you well, but you want to send

a message to them. The only way we have to send a message now is to vote “No” on the compensation committee, which we think is a very blunt instrument. We think the advisory vote is a much more finely crafted way to get feedback. It has worked well in the United Kingdom, as we heard earlier.

Finally, you also, if the compensation committee is totally recalcitrant and you had the advisory vote, of course you could also vote against the compensation committee. But we think that is kind of like: let’s tear up the company, let’s turn it over on its head because you disagree with some parts of the compensation package. A very unreasonable approach, I think.

VONDA BRUNSTING: I think that there are other resolutions that we have employed that can get at some of these same issues. We had a campaign over the last shareholder season around a separate chairman of the board and CEO. Again, we targeted—curiously enough—the financial industry because we were concerned about the risk management practices. Very prescient, I guess. But we did not, at the time, know how things were going to unfold over the past year. But we did, as part of the resolutions that we submitted, engage with the boards of many of these financial firms in New York and talk with the board about it.

It is very dissatisfying to shareholders to be on the outside of that room [where compensation is being discussed] and to feel like they have no way of getting in there and being part of that discussion...“Say on Pay” is one very useful instrument to start that engagement process.

—Vonda Brunsting

Very prescient, I guess. But we did not, at the time, know how things were going to unfold over the past year. But we did, as part of the resolutions that we submitted, engage with the boards of many of these financial firms in New York and talk with the board about it.

I think that one of the discussions is very telling. We met with Kerry Killinger at Washington Mutual²² and he told us in a meeting about their efforts, that they saw some of the mortgage problems and were troubled by it years ago and pulled back. And he said they got killed by the analysts. So they then went back into mortgage-backed securities with a vengeance. And of course we all saw what happened at Washington Mutual. We submitted a proposal to separate the chair and CEO, which won a majority vote, 51 percent of the vote, and he stepped down. There were a lot of things happening there. It was not about his compensation package necessarily, but I think the checks and balance system is missing when you have a board that is controlled by the same person as is running the company and a board that is maybe a little too passive. It’s absent if the CEO says this is what my compensation package is, or this is what the compensation consultant is recommending to us, and therefore we are just going to say, “Okay, go ahead?” It is very dissatisfying to shareholders to be on the outside of that room and to feel like they have no way of getting in there and being part of that discussion.

So I think that “Say on Pay” is one very useful instrument to start that engagement process like what happened with the new leadership at Blockbuster.

The only way we have to send a message now is to vote “No” on the compensation committee, which we think is a very blunt instrument. We think the advisory vote is a much more finely crafted way to get feedback. It has worked well in the United Kingdom...

—Timothy Smith

²⁰ See <http://www.capmag.com/>.

²¹ Robert Nardelli, former CEO of Home Depot, agreed to resign as the company’s CEO after he refused to renegotiate his compensation package as Home Depot’s Board of Directors had requested.

²² Kerry Killinger is Chairman and CEO of Washington Mutual.

ANDREA BATISTA SCHLESINGER: Would the new leadership at Blockbuster like to take this question as well?

JAMES KEYES: Sure. I think the spirit of that article was correct in that over time, self-regulation does work. I have been in business now for over 30 or 35 years and I have seen cycles come and go. A classic one was people getting all worked up about outsourcing and losing jobs to other countries. Well, I have lived through now two cycles where companies outsourced and then all of a sudden after we all outsourced jobs, we decided we needed the expertise so we started insourcing. Then we were insourcing for about ten years and it seems like now we are back to an outsourcing cycle. After we discovered that labor in Ireland is too darn expensive now because we all outsourced to Ireland and we drove up the cost of labor, we will start insourcing again. So self-regulation over time works.

The problem with executive compensation right now in a snapshot of time is that self-regulation by the time you actually do change boards, if you replace a board, or by the time you get shareholders to actually vote with their shares and sell shares, etc., this change could take far too long. So in a continuum you have got self-regulation in one extreme, you have got legislation on the other extreme. Legislation could cause unintended consequences. Sarbanes-Oxley is a good example of some good, but certainly some unintended consequences of legislation.

In the middle is this advisory vote idea I think it works extremely well because it gives shareholders a voice but it will not create the unintended consequences that legislation might. So it is a good step, I think, in the right direction.

HON. WILLIAM C. THOMPSON: I would agree. I am not sure about the self-regulation part these days. I am not sure in looking at some of the firms, particularly in the financial area, that self-regulation has been that successful. But I would agree that an advisory vote on pay is something that is in the middle. It gives shareholders a voice. It provides an opportunity for the board and management to hear us. And let us not forget, in the end it is a non-binding thing. That was the thing in the beginning, that you were amazed that companies were opposed to shareholders having a vote in a non-binding fashion.

ANDREA BATISTA SCHLESINGER: Let's actually tease that out a bit in terms of the companies that were opposed. We do not always have a CEO on our panel, so I am going to take advantage of this and say that you do not have to name names, unless you want to, and then it is completely confidential. Ignore the cameras and the notebooks. But how do you think your peers are thinking about "Say on Pay" today? If they are all positive, fine. If they are not, then what arguments do you think would be persuasive, if any, for your peers and the industry, for your colleagues?

JAMES KEYES: I think it is absolutely natural. Whenever someone comes in with regulation, rules, requirements, there is always trepidation. We all react adversely to change. And when someone suggests a change, it is one more step, it is going

to cost money to adopt the change, to comply with the change, and perhaps it has unintended consequences. It could perhaps drive employees away, all of the excuses that were given. But once you step back from it—well, this is what happened in our case. Our immediate reaction was that this cannot be good. Any time that we are asked to have a vote or a requirement, a new regulation, or new rule, it cannot be good. Yet we stepped back from it and looked at it and said all it is really doing is providing a voice to shareholders and it is non-binding, and why wouldn't we want to know what they really think about this? It is not really forcing us into any adverse position and, therefore, we should adopt it.

Our immediate reaction was that ["Say on Pay"] cannot be good. Any time that we are asked to have a vote or a requirement, a new regulation, or new rule, it cannot be good. Yet we stepped back from it and looked at it and said all it is really doing is providing a voice to shareholders and it is non-binding, and why wouldn't we want to know what [shareholders] really think about this?

—Blockbuster CEO James Keyes

Now, not everyone perhaps is going to look at it that way, because if you do not really step back from it and think it out carefully, and if you really perhaps have a compensation structure that is not conducive to shareholder interests, then you would not want to raise the issue and put it under the spotlight. In our case, we were happy to do it because of a brand new management team and a new approach to governance from this perspective.

ANDREA BATISTA SCHLESINGER: So for the rest of the panel, do you think that the strategy here is persuading those who could be persuaded, perhaps Mr. Keyes's colleagues whose compensation packages break the mold, let's say, or are well thought out? Or is it really about mobilizing shareholders? From a tactical perspective, what's the movement strategy to get it done?

HON. WILLIAM C. THOMPSON: I do not think we are going to see a large number of executives come forward and say we think this is a great idea.

ANDREA BATISTA SCHLESINGER: I just thought I would ask.

HONRABLE WILLIAM C. THOMPSON: It was a good question.

VONDA BRUNSTING: It goes back to what the Comptroller said. Self-regulation, I think that we all have seen over the last two months that it may be the best idea and it may be what we hoped would happen, but it has not happened. I would just respond to your question, or at least the question of how to speak with the CEOs, with a couple of quotes because I think these are all interesting. One is that, "If shareholders do not act on 'Say on Pay', then Congress will." Which is something that you have heard on the panel already, but it was said by Peter Flaherty²³ who I know Tim Smith knows. He is the president of the National Legal and Policy Center, which is a libertarian think tank for people who do not know it. They probably

²³ Peter Flaherty is the President of the National Legal and Policy Center, a non-profit organization that "promotes a single standard of ethics in public life through research, education and legal action."

stand exactly on the opposite side of almost every issue that Drum Major Institute does. So here is a guy who is basically saying, “You guys are vulnerable out there right now. So you need to enact ‘Say on Pay’ and get ahead of the game.”

Here is the other quote that I read yesterday from Carly Fiorina, the former CEO of Hewlett Packard. She was speaking on Monday with the American Bankers Association and she said, “Public companies should put CEO pay to a vote by shareholders in order to avoid a regulatory and public relations backlash.”

So again, there is a time now when a lot of forces are coming together in this country. The shareholder approach is really the scaffold that Tim was talking about. If CEOs are not willing to do it for the right reason, then do it for the wrong reason. It is still is going to have to happen.

There is the perfect storm that is coming together. You have new government. You are going to have at least government that is not going to sit back and allow self-regulation to be the word...The public is going to be pushing them. With every large compensation package of any CEO or other executive that takes a dollar from the federal government, the public is going to be saying, “Wait a minute, why are they getting \$15 million or \$30 million or \$40 million when I do not have a job, or I run the risk of losing my job, and I just bailed them out?”

—Comptroller William Thompson

HON. WILLAM C. THOMPSON: The American public is angry. They have just watched \$700 billion of their tax dollars go to prop up companies and basically reward CEOs and others for bad behavior. Bad decisions and bad behavior and they are still being rewarded in a lot of ways. And the public is angry. All of us in this room have heard it, our neighbors, our friends, our colleagues. It is disgust. It was a big part of the presidential election and it continues to be a source of irritation as taxpayers all across the country say, “I had nothing to do with this.”

And you are still seeing companies where the discussions now are about bonuses. If you take money from the federal government, what is the limit on bonuses? What is the limit on compensation right now? Wait a minute, that is our money now that is going to pay bonuses. So I just think that the public is...You are right. There is the perfect storm that is coming together. You have new government. You are going to have at least a government that is not going to sit back and allow self-regulation to be the word. From the White House, to the Senate, to the House. And the public is going to be pushing them. That is the thing that is different. The public is going to be pushing them. With every large compensation package of any CEO or other executive that takes a dollar from the federal government, the public is going to be saying, “Wait a minute, why are they getting \$15 million or \$30 million or \$40 million when I do not have a job, or I run the risk of losing my job, and I just bailed them out?” I think that is what you are going to wind up running into.

TIMOTHY SMITH: I will just add a point, too, that we are talking about the advisory vote on pay, but as Bill was referring to the rescue package, there are other parts of

pay that obviously are on the table and being discussed. The rescue package talked about claw-backs, for example, so that if executives are paid bonuses based on faulty numbers, they shouldn’t be able to keep those bonuses. Sounds pretty logical but, in fact, it is not the rule of the road in all companies or many companies. So when we are talking about the advisory vote, in a way it is an umbrella term for a lot of other issues that will relate to executive pay.

The second point you asked, which is a very good one, is what is our approach here? How are we trying to encourage companies to act? I think all of us on this panel would try to encourage companies to act using a variety of approaches. One, obviously we need to make a persuasive business case. There is a business case to be made, as Bill just mentioned. There is a self-interest case to be made as well. And we will make that case. We have to be involved in numerous dialogues with companies to encourage them to do this. But to this point, to be frank, except for about a dozen companies like Blockbuster, very few companies have responded positively to the case that we have made. And we think it is a pretty cogent case.

The second option, of course, is to say: let us go to the investors and let them speak their mind and maybe you will listen to your owners. And when you get a 40 or 50 or, in the case of Sun Microsystems recently, a 67 percent vote,²⁴ what are your investors telling you? They are telling you they are frustrated, they are telling you they want this modest change. And they do have some vigor behind that, and if you start ignoring that vote, they will start voting no on the board. So it is a combination of persuasion and making a reasonable business case, but not being afraid to provide. I think we do reasonable public pressure. We are not in your face, but we are going to be a strong voice as investors and with citizens and others calling for changes on compensation.

ANDREA BATISTA SCHLESINGER: I just want to tease out quickly one of the points that you eluded to, Mr. Keyes, in your opening about what “Say on Pay” does to motivation. When the bailout was being discussed and there was a question about what kind of limits on pay and benefits would be in effect for those who agreed to participate, Mayor Bloomberg said, “When you start to decide how much you are going to pay someone, in a competitive world, in a competitive marketplace, the one danger is that in the interest of good politics and good theater, we don’t access the best and the brightest.”

That was not directed at “Say on Pay” but at the notion of limiting pay and benefits and bonuses as a condition of the bailout. Comptroller Thompson, do you agree with Mayor Bloomberg’s assessment? Do you think this is a danger?

HON. WILLAM C. THOMPSON: I think we have seen some very highly paid individuals. We can tick off the names of the heads of most of the investment banking firms these days. The fact that they were highly paid did not seem to indicate that good decisions were made. So I do not necessarily think that we are

²⁴ In November of 2008, 67 percent of Sun Microsystems shareholders voted in favor of a “Say on Pay” resolution.

[W]e have seen some very highly paid individuals...The fact that they were highly paid did not seem to indicate that good decisions were made. So I do not necessarily think that we are tying talent to high pay. There seems to be a bit of a disconnect these days.

—Comptroller William Thompson

tying talent to high pay. There seems to be a bit of a disconnect these days. So I would respectfully disagree with the Mayor in that case.

ANDREA BATISTA SCHLESINGER: I did not know what you were going to say. I just wanted that perspective. So let me

open it up. There are a couple of people that I wanted to specifically ask if they would offer questions, since they have an interesting perspective on this, and then open it up more broadly. Rich Ferlauto is the director of corporate governance and pension investments at AFSCME. He is a leading advocate for allowing shareholders to vote on executive pay packages. Rich, if you have a question that you would like to ask.

RICHARD FERLAUTO: First of all, I think this is a terrific panel and thank you to the Drum Major Institute for putting together a very worthwhile and very timely program. My question is for Mr. Keyes. Part of the focus of the shareholder motivation for “Say on Pay” is that it would begin a constructive dialogue very early on in the pay determination process—frankly, not with the CEO, but with the compensation committee—to look at new models of pay that would more effectively deliver shareholder value for the long term and create a real incentive for the implementation of a strategic plan. We all know Blockbuster really needs a strategic plan right now and I think you are on your way towards doing that.

So I have got two questions related to the communication of and conversation about strategic planning implementation. One is: what would be most helpful in terms of a communication system with shareholders that would be helpful to the board to make some determinations about pay? You should be credited for having made a decision to put together a select committee afterwards, but how about before? And how could you envision that might work?

Then, secondly, I have a question about new models of pay themselves. Again, your focus on equity compensation is interesting because it seeks alignment. But one of the new emphases of pay models that we are going to be looking for this year related to “Say on Pay” is really putting you in the same position as shareholders, by requiring you to hold your equity past exercise for past year tenure with the company. That way there is true alignment there and there is not really churning. So I am wondering if you have got a view about that type of long-term bonding and how you might react to that.

ANDREA BATISTA SCHLESINGER: I told you it was going to be very friendly, very simple, yes/no questions.

JAMES KEYES: First of all, we do have a strategic plan, a very good one, actually executing quite well again, so I just want to make sure that is clear. We are a new Blockbuster well on our way.

The question of shareholder input, this is always a challenge. I have 5,000 store managers and every single one of them wants a voice. Well, how do you get 5,000 opinions, because of the 5,000 managers, there are at least 3,000 opinions about any given subject. With shareholders we have in many cases different objectives, different positions, different points of view, and there are millions of shareholders. So how do you effectively poll their sentiment? Well, it is difficult but you have to have some attempt to do it. The committee approach that we suggested we think is a good vehicle. If we can establish some sub-group of shareholders that can speak for the rest, recognizing they do not speak for everybody but they will hopefully be representative of the group, then we can in fact get some good dialogue going. And we would have no reason to oppose the idea of getting together before, rather than after, the vote. Now, in our case we do not think there is going to be much at issue here because of the structure that we have, but we would certainly welcome that opportunity to have our shareholders come together, a small group of them, so we can have a meaningful dialogue with a subset of people.

To the second question about the requirement of holding equity past the tenure, I am really mixed about this. In some ways, it is a good idea because equity packages, for example, sometimes have a fuse that is too short. The whole concept of equity is intended to be for the long-term and where we are right now is a good example. How long will it be before multiples for companies across the board return to the basis that most compensation packages anticipated when they were established? It could be quite some time. So the longer the better, in general. The only wrinkle to that—and this is where sometimes the unintended consequences of legislation or rules can come into play—is when a company changes completely, when the management team leaves. In our case, we have completely rebuilt Blockbuster. I wouldn't want the previous management team to be imposed upon by the new strategies that we are now putting in place. They may completely disagree with the direction the company is moving in, etc. and yet their compensation would be tied to a set of decisions they have no input on at all going forward.

I do not have the answer, but that is the down side, the unintended consequence of extending maturities out for a long time. I do not have the answer for that, but we need to be sensitive to the position that that puts people in when management teams do change.

ANDREA BATISTA SCHLESINGER: Gary Brouse is the director of corporate governance for the Interfaith Center on Corporate Responsibility where he addresses the inclusiveness of corporate boards, board member elections, pay disparity and pay equity issues, and corporate accountability. Do you have a question?

GARY BROUSE: Yes, for Mr. Keyes. I was interested in your compensation package.

ANDREA BATISTA SCHLESINGER: You mean the policy.

GARY BROUSE: No, his compensation. [Laughter] I was wondering, do you feel like you are at a disadvantage in attracting talent compared with other companies? If so, or if not, why? And number two, do you think the Obama administration is going to inspire more inclusiveness at the management and corporate board level?

JAMES KEYES: First, to the question of recruiting. Actually, I do not see it as an obstacle to recruiting. I actually see it as an advantage. But I am not the norm in this case. As you know, I came in with a very different perspective, having a very different set of experiences, recognizing the value of wealth creation through value creation in my personal experience. My management team is people that have the same perspective. So I have been using “Say on Pay” as an example, as a reason when I talk to prospective officers of the company for why I would like them to accept a compensation package that may be less than they are getting today in base pay, but perhaps has more upside if we perform. Now, yes, I may exclude some very strong candidates. But the way I have been looking at it is if they choose not to come under those circumstances, then perhaps they were not the right teammates in the first place. So far, I believe it is the right thing for us to do.

Now on diversity. It is hard for non-profits and public corporations to remain non-partisan. I do think, from everything that I have seen with the Obama administration, it does appear that they would intend to be inclusive. I think with change comes fear. People always are afraid of change and companies and executives are no different than anyone else. So with this change there is a lot of trepidation about what will happen, what will be the impact on corporations. The hope that I have

is that this new administration will be populated by extremely intelligent people who are able to recognize the importance of collaboration and of working together with companies. So I am actually quite optimistic that the new administration will be inclusive and that we will, as a result, power through the tough times of change and be better off.

I have been using “Say on Pay” as an example, as a reason when I talk to prospective officers of the company for why I would like them to accept a compensation package that may be less than they are getting today in base pay, but perhaps has more upside if we perform.

—Blockbuster CEO James Keyes

GARY BROUSE: A clarification here. I was wondering about the inclusiveness of corporations. Is the Obama administration going to inspire corporations to be more inclusive in their management and board?

HON. WILLIAM C. THOMPSON: When you say inclusive, do you mean more diverse? That is the word you are looking for—be blunt. I think that what the new administration looks like in senior positions will have an influence on that. It just will not happen by itself. It will be what the new administration and the senior cabinet officials and others look like, how diverse that is, and then the impact that will have as others take a look and say, does that make sense, is that important to the administration? And it will not be what you see legislatively, it will be what the

chatter is. It will be: does that make sense? Will it create a positive impact in your dealings with the administration if you embrace diversity? It will not just happen on its own because the natural tendency is for business to go on as business has gone on forever. It is only when people believe that change is important for them that they will start to move in that direction. So you will see. Will there be more women? Will there be more African Americans and Latinos and others in senior positions and on corporate boards? It will happen over a period of time if people believe it is important.

ANDREA BATISTA SCHLESINGER: I am going to throw it out now to an audience question here.

QUESTIONER: I would like to know what, if any, is the equivalent for employees of these corporations and where is its equivalence for public benefit corporations and authorities and not-for-profits? How does that get figured into this?

ANDREA BATISTA SCHLESINGER: Anybody want it?

VONDA BRUNSTING: There is a level of disparity between executive pay and worker pay in this country that is really overblown. It is funny that as we have been talking about the “Say on Pay” resolution and we have been in dialogue with our other institutional investors in the U.K., they do not want us to export to them our compensation practices in the U.S. And we have started to. Over the last couple of years, they have seen the executive packages in the U.K. just expand dramatically. I think that if we can rein it in at the corporate level, it will have a different impact. It is hard to go from the not-for-profit to the for-profit to the government world because the pay disparity is so great in all of them. But in other countries it is not like that. People go from government to business in Canada far more frequently, so they bring their expertise of both worlds into those different workplaces.

There is a level of disparity between executive pay and worker pay in this country that is really overblown.

—Vonda Brunsting

So I am not quite sure if I am getting to your question, but I think that there is an example that could be set here that would have a ripple effect.

ANDREA BATISTA SCHLESINGER: You just mentioned the U.K. Maybe Vonda or Timothy could capture for the audience again how “Say on Pay” has worked in the U.K. in terms of preliminary success? My real question, and maybe this is for Comptroller Thompson, is do you think that American companies would be more competitive vis-a-vis the U.K. if we were to follow their lead in doing “Say on Pay?” Is there a competitiveness advantage to us? Maybe first just a quick recap of how it has worked there in terms of results.

TIMOTHY SMITH: In the United Kingdom and a number of other European countries and Australia, annually there is actually a binding vote or mandatory vote, not an

advisory vote. But there are votes that occur. At least as we hear from our British counterparts what this does in their climate is to engender a great deal of discussion between companies and their investors before they come out with a vote. Because they want to have the benefit of the input so they are not surprised with a negative vote. So our best understanding is that this was a stimulus for meaningful dialogue and conversation, and helped change the acoustics between the boards and top management and investors on these issues.

The vast majority of the votes in the United Kingdom are overwhelmingly in favor of the package. It is not like you have opened up Pandora's box and 50 percent of the pay packages get rejected. But there are a number where there are problems and those votes send a strong message.

HON. WILLAM C. THOMPSON: I do not know that it improves the competitiveness. For U.S. companies it would improve the dialogue between the owners of the companies and those who are running them. I think that is what it does. It gives those shareholders an opportunity to indicate if they feel that the companies are moving in the best long-term strategic direction. I think that is the important thing.

ANDREA BATISTA SCHLESINGER: As many of you know, we live blog these events and we will link to a couple of studies that we used in putting together this event²⁵, showing, for example, that CEO salary increases year to year, the rate of increase has been declining in the U.K., and some attribute this to "Say on Pay." There are also some studies on the other side.

SARAH STRANAHAN: My name is Sarah Stranahan. I am with the Needmor Fund²⁶ and we have filed and co-filed several resolutions on "Say on Pay." My question is a follow-up question about England. Mr. Keyes, I was very impressed with the simplicity, transparency, and alignment of your pay package as you described it. Are pay packages becoming simpler, more accessible, easier to understand? In other words, is one of the things that shareholders are asking for is some directness and transparency and are we moving in that direction as a result of "Say on Pay?"

JAMES KEYES: I do believe that is the benefit, and we have been seeing this happen. It is like anything else, as I said. You see these cycles. As companies try to compete with other companies to recruit high-quality employees, the list of benefits would just expand and expand and expand. I remember a time when it was absolutely natural to include country clubs and cars and use of corporate jets, and on and on and on. All of this was very difficult to measure and track. At the end of the day, I think many people now are saying: "You know what, I'd rather have my own country club and not worry about the company paying for it and I'd rather have my own car and drive what I want. Why do I not just keep it simple and have one compensation package that is disclosed to the investment community?" So the

simplicity really does have its benefits. I think you do see a cycling back now toward a period of much greater simplicity.

JUDITH RUBENSTEIN: My name is Judith Rubenstein and I direct a project called Connecting to Advantages,²⁷ which has to do with very low-income people. I guess two phrases kind of set me off here. One was performance-based and the other was 7-Eleven. I happen to have had a friend who was magnificent. Her performance was just stellar, and it was recognized by her employers. So instead of her earning minimum wage in Florida then, which was, I think, five dollars an hour, she got seven dollars an hour. Wow. So I guess my question is, with the shareholders and the corporate people, the executives, how do they arrange it so they do not forget those other folks and so they are conscious of ordinary people who are losing their jobs and losing their houses and have to pay rent and health care costs, all that regular day-to-day stuff. How do you stay conscious of them if you are shareholders and executives? They are already in another branch up there.

JAMES KEYES: I can speak for myself, not for my peers. It is a constant challenge to keep yourself grounded. But at the end of the day, Blockbuster as an example is only, well, it is not me. You do not know me when you are Blockbuster customers. You know the person behind the counter at ten o'clock at night when you want to rent a video or a game, or any of our other multiple opportunities. That is the point of sale, that is where it all happens. And in my case, I constantly remind myself of that, try to remind myself of that, by getting out into the field, visiting with the stores, dropping in on the stores, talking to the people. And you get a loud voice when you are that close. Now, if I was running an automobile manufacturing business, it would be important to get on the floor of the plant and talk to the people. It has just always worked for me. It is natural that the larger the corporation, the more difficult it is to connect with the people that really make it happen every day just because of size. It is just the pure law of big numbers that makes it very challenging and difficult to take the time and do that. But for me personally, that is what has worked best, to keep you grounded in the reality that it is those people that ring the cash register every day.

ANDREA BATISTA SCHLESINGER: I want to actually extrapolate something from that question and ask Vonda, in particular, is "Say on Pay" a way of getting at issues of economic inequality? Because I think that is at the heart of the question.

VONDA BRUNSTING: I would say yes. That is how we view it. Our members are public employees whose retirement savings are in pension funds and, as such, they are some of the largest shareholders globally. We are full of admiration for the work that the Comptroller has done with the New York City funds, with other pension funds like CalPERS that take these issues seriously as fiduciaries. So it is a voice for our members to be able to engage in that dialogue. Now, they are not sitting down in a

²⁵ For a complete listing of these studies, see [_](#)

²⁶ The Needmor Fund is a family foundation that "supports people who work together to change the social, economic, or political conditions which bar their access to participation in a democratic society."

²⁷ Connecting to Advantages seeks to "increase food pantry customers' use of government benefits and services by training food pantry volunteers to screen customers and make referrals to those benefits and services."

If I, Vonda Brunsting, wrote, “Dear Mr. CEO,” they are not going to respond...But if I wrote on behalf of our pension fund, it is a way for us to be able to have a seat at the table. And that is part of what we are talking about here, is having a seat at the table.

—Vonda Brunsting

pension fund, it is a way for us to be able to have a seat at the table. And that is part of what we are talking about here, is having a seat at the table.

TIMOTHY SMITH: Even though I would say that “Say on Pay” really is not in a lot of ways a way to close that gap or to better align the workers with the executives, there are ways and all of us participate in other shareholder resolutions, everything from...I will throw a name out on the table: Wal-Mart. We have all been involved with Wal-Mart in trying to improve conditions for workers. We do that more directly. There are other things that we wind up doing in shareholder resolutions

in companies around the world and the United States, everything from environmental resolutions to resolutions affecting what they do in the companies. We have tried to look at things on a few different levels: the environment, what you do with the communities that you are in, how you interact with them. So we do that a bit more directly.

—Timothy Smith

Some companies, as they do business around the world, it is slave labor, child labor, other issues along those lines, we do direct resolutions on those. So it really is not...I would say at least from our point of view, this is not the way to better align things between workers and management. I think we try and do that in other ways and a bit more directly, even though in some places you cannot. The one thing that you do not want to do...There is a very fine balance between the shareholder resolutions that you file and trying to run the company yourself. We do not want to run companies. That is why there is management. So we’d like to have a voice, but we understand also that we are not running the company. So it is a fine balance. We try and do some things more directly.

Sorry to grab someone from the audience, but I see Ken Sylvester jumping up and down. And Ken is probably one of the acknowledged best in the country when it comes to this.

KEN SYLVESTER: I wanted to ask a question actually. The question is for Mr. Keyes. Increasingly, institutional investors in the United States and outside of the United

States are advancing the concept of sustainability, of long-term investors. We are very interested in pushing sustainability, sustainability at the governance level in corporations, in terms of the investment strategy at pension funds, in terms of the business strategy at corporations. We want sustainability to be incorporated into all of these. To what extent is Blockbuster or the corporate community incorporating sustainability into criteria for measuring the performance of executives?

JAMES KEYES: I think as challenging as these economic times are right now, in a way, and there are very few people that will share this opinion, we are in a period of self-regulation. The market is cycling right now and it is creating change and that change is going to create good change in terms of sustainability because every company in this country right now is doing exactly what you are doing with your bills. You are looking at every one of your bills—I know I am in my household—and asking, “What do we have on a monthly basis, what do we have to have, what can we eliminate?” And companies are doing the same thing. So as companies go through this rethinking of a new environment that they have to compete in, they are by necessity going to look at their cost structures and compensation is going to come right under the glaring spotlight. And it will be: “Okay, we have a choice here. We can do with how many fewer people, how many fewer levels of compensation?” In many cases it will be: “We prefer to keep more people to do the job and we are going to have to bring levels of compensation down to a more appropriate level until we weather the storm.”

I know we are doing it. We are looking at that now. I have had to share with my team where we are. As proactive and positive as we think our compensation structure is, it may not be enough. We may have to take a look at putting a lid on raises, for example, for a period of time, in the interest of keeping more people to do the job. I am sure every company in the country right now is going through that same process and it will be, I think, a healthy period of a little bit of self-regulation forced by the economic circumstances we are in.

TIMOTHY SMITH: To add a point to Ken’s question, too, I think it is a small number, but my reading is that increasingly companies have clear company goals and objectives which are part of their strategic plan to deal with issues like climate change or diversity or supply chains and sweat shops overseas. If that is part of their business plan, top executives get incentives for performing and bringing the business plan to fruition. So a company like IBM or even Wal-Mart may, in fact, have as some of the evaluation criteria for executives how they are doing on objective X. Which you and I might call a governance or an environmental or a social criteria. I actually hope that we will see more of that in the future and it gets to the question asked before about employee relations and economic equality in the company.

I will just add the point that I think the advisory vote on pay may be not as sharply honed a tool to address that issue. What about a resolution which members of the Interfaith Center on Corporate Responsibility have done before asking that the disclosure include a description of the top executive pay packages compared to the

28 Ken Sylvester is New York City’s Assistant Comptroller for Pension Policy.

average employee's pay package. And therefore the 400 to 1 ratio that has been referred to gets exemplified there. And especially in a time of layoffs, how does pay at the top executive level get modified when average workers are being dismissed? Now, at many companies the pain is shared, but in some a lot of the top executives are impervious.

MIKE MATURO: I am Mike Mauro. I am actually straddling the line because I am an elected official in a town up in Rockland County, and also I just started a new career in the private sector. It sounds to me like you are talking about self-regulation but this has actually become a conversation about a new form of collaboration. And with that, on both sides of the aisle, in government and in the private sector, collaboration I think requires sharing information with the people that you are collaborating with. So particularly for Mr. Keyes and of course anybody else on the panel, have you had to prepare for the "Say on Pay" initiative? Have you had to prepare new ways to inform your shareholders and stakeholders in the company, or do you think that there is enough information out there already?

JAMES KEYES: We have. We have been focusing on this. It was not necessarily stimulated by "Say on Pay." It is just this effort, as we said, of trying to transform the image that we had with the shareholders. So across the board we are trying to have greater transparency.

The challenge we have is that the hardest thing in the world to do is to make things simple. And that is our objective. It is not just transparency, it is simplicity. It is being able to get the concepts out there in explainable and simple ways. And that process that we are going through is actually very healthy because it causes us to question some of the programs. If they are too difficult to communicate, perhaps they are not the right programs. So we are rethinking many things along those lines.

VONDA BRUNSTING: It goes back to the other question about what we found in trying to understand executive compensation. As more disclosure has been required, the pages have gotten longer. It is almost another language. It is so hard to get through a company's filings on compensation that it is almost useless

Hopefully, a byproduct of this process of "Say on Pay" is that companies will have more of an incentive to communicate with their shareholders in a way that we can understand, as opposed to trying to hire lawyers to bury the nuggets in 200 pages of filings.

—Vonda Brunsting

to have more information. So I think that the issue is not just transparency, but what you just said I want to amplify and say "simplicity." Hopefully, a byproduct of this process of "Say on Pay" is that companies will have more of an incentive to communicate with their shareholders in a way that we can understand, as opposed to trying to hire lawyers to bury the nuggets in 200 pages of filings.

QUESTIONER: I think that the "Say on Pay" initiative is terrific and it is good of you to have the panel to discuss it. I have this question. In 1974 when I was first elected to the City Council, one of the first things I did was sponsor the Gay Rights

Bill, which at that time was a civil rights bill that they couldn't be thrown out of their homes or hotels, etc. And the opponents said, "If we pass this bill, the next thing that will happen is they will be wanting gay marriage." And we said, "That is ridiculous, how could such a thing come to pass?" And sure enough thirty years later it did, and it is good. My question is "Say on Pay" is fine and it is good—it is marvelous—but how do you know that thirty years from now the federal government will not be dictating how much people can be paid, what are their salaries, and all kinds of other things relating to the business? How do you prevent that almost irrevocable march?

HON. WILLIAM C. THOMPSON: You do not know what will happen. The truth is this is a capitalist country. However, the \$700 billion bailout package, as somebody pointed out, that is probably the newer form of...It is not capitalism. Somebody said, is this not socialism? And the truth is it may not be socialism, but it is not exactly what we are used to. I just do not know. Who knows what happens thirty years from now? Do you know that the federal government will not mandate executive pay? We do not. How long does the federal government continue to prop up companies these days, and how much more is it going to cost us? Let me tell you, if we continue to do this over the next five years—forget thirty years—five years from now the public will be sitting there going, "Wait a minute, how come they are getting paid more than we are?" So I do not think you do know. I do not think it is going to happen, but I think if any of us had a crystal ball we would be doing something different. So I am just not sure.

STEVE LEVINE: My name is Steve Levine and I wear a few different hats. I am a certified fraud examiner, chairman of the New York City chapter on that.²⁹ I am director of labor law compliance at the School Construction Authority in New York City. And I am also an adjunct faculty member over at SUNY Long Island's Center for Labor Studies. With that hat, I am going to talk to Vonda and to Bill. My question is very simple. We are talking about public opinion and public direction and current, future, and other ideas about what may be out there and may not be out there and what may happen and what may not happen. How do you judge your constituencies? How do you really know what the public feeling is and what your members want, what is actually happening out there? Are you guessing from some poll?

VONDA BRUNSTING: I am not talking about some poll, but I can tell you that in October when the bailout was first publicly known, we were reading about it, we felt and our leadership, Andy Stern³⁰, felt that this is something that the Treasury or the Federal Reserve Chairman is going to figure out. Then over the next couple of days we heard from a lot of people. The beauty of the Internet and the beauty of having stewards in place, in workplaces, who communicate with our members, is that within 48 hours we turned around and started asking questions, like if this is

²⁹ See <http://www.nycfe.org/board.htm>.

³⁰ Andy Stern is the president of the Service Employees International Union (SEIU).

taxpayer money, what are the lines of accountability and transparency that are going to be required? What about executive compensation? What about homeowners? What about Main Street? So I think while I do not have statistics in front of me or documents that show it, our union has felt it and our members have forced us to pay more attention to this than we would have naturally. I think that that is happening all over the country. I think what was said earlier by the Comptroller about this election, it was clear... Many of you were probably out there like I was, knocking on doors and talking to voters. Everybody voted on this question last week. There is a huge desire for change. This bailout is going to be shaped by more, I hope, than just a handful of elected officials in Washington.

HON. WILLAM C. THOMPSON: Just to answer quickly, we may do an internal discussion and some of that is reflective of the conversations we have had with others and our colleagues in a number of different places. It also is a conversation we go back to with our trustees on each of the boards. We have the conversation with them before we decide where we are going to go during a shareholder season. So it is a collaborative thing. And if you look at our boards, they are comprised of leadership on one side from some government officials, but definitely from labor, all across the board whether it is fire, police, teachers, or the New York City Employee Retirement System or the Board of Education retirement system. All of us kind of get together in adopting the direction that we are going to go in during proxy season.

DAWN WILLIAMS: My name is Dawn Williams and I wear many hats, but right now I am playing the role of the ordinary citizen. I think part of what we have been talking about is the disconnect that has occurred on so many levels. But right now we are in a crisis where everybody is really opening up and connecting. I think one of my anxieties about this is what is going to happen over the long term. When things eventually become better, what is going to hold us accountable and hold individuals accountable to these concepts that are very important to us now?

ANDREA BATISTA SCHLESINGER: And will the urgency be there?

TIMOTHY SMITH: Taking your larger question and using this narrow point, do you remember earlier when the discussion was whether Blockbuster “needed” the advisory vote and Mr. Keyes said, “Well, we have a new management team, so this is not needed now because we have remedied the problem?” And the response from the Comptroller’s office was that we are trying to think long term as investors in representing the citizenry about what checks and balances should be in place for companies. So we are thinking beyond what will happen in your leadership period, Mr. Keyes, to what might be happening with Blockbuster in ten or fifteen years. And likewise that is why we are asking all companies to adopt this.

HONORABLE WILLIAM C. THOMPSON: And in the same narrow response, this started in 2006 for the 2007 proxy season. To be honest about it, at that point I do not think the country was worried about a fiscal downturn. Things were moving along well. So this has not happened during tough times; this happened during good times. In this

same shareholder resolution season, I think we put a proposal forward to Blockbuster also on classified board³¹. I think that was adopted. It is long-term corporate change. You are not looking at just tough times. We started this in good times.

ANDREA BATISTA SCHLESINGER: We are about out of time. I wanted to ask everyone here to close. I am not going to ask you in the long run, since I am a Keynesian and in the long run we are all dead. But in ten years, where do you envision executive compensation will be? I will start, Timothy, with you. And whatever you say, we will come back again in ten years to discuss it.

TIMOTHY SMITH: It may be above my pay grade to imagine this. Well, I can have hopes. I think my hope would be that some of the issues that we have talked about here today become alive and vibrant in the board room, that there are actually checks and balances on excessive pay, that companies look at their pay packages at the top and for the average employee, that pay is clearly explained, as Vonda said. We hope that shareholders will be communicated with about the issues related to pay and their views will be incorporated into discussions at the board level. Those are some of my hopes.

VONDA BRUNSTING: So this is how I think it will be or how I hope it will be? Can I say how I hope it will be? I hope that there is a fundamental shift away from the short termism that currently exists in the market. I think pay structures are set up to reward whatever kind of bumps you can get up in stock price and that is moved along to share ownership. Maybe it goes back to the question that Ken asked earlier. Pension funds are long-term shareowners and I think we have to lead the way in encouraging companies to be long-term in their outlook: how are they going to grow their business? And I think that pay reflects that. If pay is rewarded based on a daily stock price, then I think we are not going to get there. But if we can change those metrics to reward folks who have a long-term outlook, then this will follow. So that is my hope.

HON. WILLAM C. THOMPSON: When you look at this one issue of “Say on Pay,” I think that many more corporations will be in the place that Blockbuster is in now. I do not know that they are going to go there voluntarily. I tend to believe that it is going to be more because of the prodding of government that they get there. And I

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—Vonda Brunsting

31 A classified board of directors is one in which directors serve overlapping terms, meaning that only part of the board can be replaced in any given year. This slows board turnover thus inhibiting shareholder activism.

think that is more the future. I would like to think that things will be the best, but left to their own devices I think many of the corporations will hope this goes away. I do not think government will let it go away right now and I think that is why you will see changes in the future.

JAMES KEYES: I agree completely that the future will look much different. In ten years, I think you will see a much more normalized structure for compensation. I do think that governmental influence will be a factor in stimulating that change. But there is another thing that perhaps I am more optimistic about going forward and that is the time that we are in. A couple of my mentors were in their eighties. I do not know if some of you have enjoyed...People in their eighties have lived through a whole different world than anyone else from their sixties down. These mentors have constantly throughout my career coached me on the difficulty of managing through difficult economic times that we have never seen. I think what is going on now is that these difficult economic times by design teach fiscal responsibility. They mandate fiscal responsibility and every company is going to have to go through the same thing. We are creating now, in managing through these times, a new crop of management. The combination of some government influence and the learning that we are going through now by necessity will create a better outcome five or ten years from now.

ANDREA BATISTA SCHLESINGER: A round of applause for our terrific panelists. Thank you all for coming.

WHO IS THE DRUM MAJOR INSTITUTE FOR PUBLIC POLICY?



The Drum Major Institute for Public Policy is a non-partisan, non-profit think tank generating the ideas that fuel the progressive movement. From releasing nationally recognized studies of our increasingly fragile middle class to showcasing progressive policies that have worked to advance social and economic justice, DMI has been on the leading edge of the public policy debate. Founded during the civil rights movement, DMI equips those on the frontlines with the tools to more effectively advance an agenda of social and economic justice, including research, model policies, policy-driven Web sites, and even young talent. For more information, please visit www.drummajorinstitute.org

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NO ECONOMIC RECOVERY WITHOUT CITIES: THE URGENCY OF A NEW FEDERAL URBAN POLICY

June 2009 / President Obama's newly created White House Office of Urban Affairs presents a new opportunity for federal urban policy. The urban policies of previous administrations have viewed cities as problems or have held that the federal government could do best for cities by doing least. In contrast, the Office of Urban Affairs provides an opportunity to maximize the economic potential of cities through well-coordinated, productive relationships with the federal government. These relationships are particularly important to the success of the economic stimulus package and to economic recovery. DMI offers a number of policy principles to guide the Office's efforts to develop a strategy for metropolitan America.

MIDDLECLASS.ORG 2008 CONGRESSIONAL SCORECARD

March 2009 / Who stood up for the middle class? We examine the good and bad decisions Congress made in 2008—from the February stimulus bill to the Senate filibusters that killed legislation to address the home mortgage crisis and to assist the struggling auto industry. We look at how the middle class gained from the New GI Bill and the Higher Education Act, and how ordinary Americans lost with the no-strings-attached bank bailout. Each member of Congress is graded on his or her votes for or against the middle class.

DMI ON THE 2009 PRESIDENTIAL ADDRESS TO CONGRESS

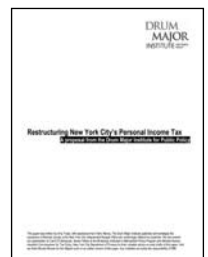
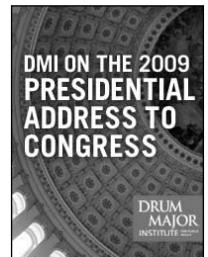
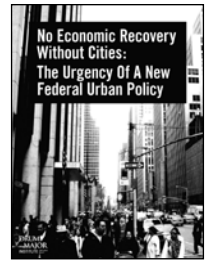
February 2009 / "The President's vision is an inspiration, and his accomplishments so far are significant. But in the context of the most severe economic crisis the nation has faced in generations, our actions must be still bolder." The Drum Major Institute's rapid analysis of Obama's State of the Union-like address hails the President's remarkable achievements for the current and aspiring middle class and calls for economic, health, education and energy policies commensurate with the tremendous challenges America faces.

RESTRUCTURING NEW YORK CITY'S PERSONAL INCOME TAX

February 2009 / 224,000 New York City households are too poor to pay state and/or federal income taxes, yet still owe taxes to the city. Almost all are households with children, most are headed by single parents. DMI proposes eliminating city income taxes on these households and paying for it with a tax increase on the city's wealthiest residents. The plan was endorsed by New York City Council Speaker Christine Quinn, Councilmember David Yassky, and State Senator Liz Krueger.

2008 YEAR IN REVIEW

December 2008 / In this Year in Review, the Drum Major Institute for Public Policy offers a look back at 2008 through the best and worst of the year's public policy, including a program to expand health care access in San Francisco (one of the best) and the Paulson financial bailout plan (one of the worst). We also highlight on-the-ground stories from five American cities, include an idiosyncratic election timeline, and recommend the year's best books for progressives. As always, we provide a hawk's eye view of what the think tanks on the conservative right are up to and our 2008 Injustice Index, a by-the-numbers appraisal of the Bush legacy.



Marketplace of Ideas

In the Marketplace of Ideas, we don't just talk about problems, we highlight policies to address them and the policymakers that made them work.

"The Drum Major Institute's recent forum on increasing accountability and developing better uses for economic development subsidies with Minnesota State Senator John Hottinger was both informative and enlightening. I found it so useful to hear about the ideas of both colleagues in government and well-informed advocates about effective legislation in other states, particularly Minnesota's progressive and far reaching bill."

—NEW YORK STATE SENATOR LIZ KRUEGER

Ideas We've Brought to Market

For more information, please visit
<http://www.drummajorinstitute.org/events/marketplaceofideas.php>

- **Preventing Predatory Mortgage Lending**
with Minnesota Attorney General Lori Swanson
- **Increasing Accountability For Economic Development Subsidies**
with Minnesota State Senator John Hottinger
- **Guaranteeing Paid Family Leave**
with New Jersey Governor Jon Corzine
- **Combating Global Warming through Congestion Pricing**
with London Deputy Mayor Nicky Gavron
- **Making Prescription Drugs More Affordable**
with Maine State Senator Sharon Treat
- **The Power of Restorative Justice**
with San Francisco Sheriff Michael Hennessey
- **Rehabilitating Vacant Buildings Into Affordable Housing**
with Boston Mayor Thomas Menino
- **Holding Corporations Accountable for Their Fair Share of Employee Health Costs**
with Maryland State Senator Gloria Gary Lawlah
- **Preventing Wrongful Convictions and Exonerating the Innocent**
with Dallas District Attorney Craig Watkins
- **Lowering the Cost of Insurance**
with California Activist Harvey Rosenfield
- **Strengthening the Labor Movement**
with Service Employees International Union President Andy Stern
- **Making Health Care Universal**
with Former Vermont Governor Howard Dean
- **Promoting Access to Pre-School Education**
with Oklahoma State Senator Penny Williams
- **Leveraging Government to Protect the People**
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- **Tackling Environmental Injustice through Legislation**
with U.S. Congresswoman Hilda Solis
- **Confronting the Need for Massive School Construction**
with Concordia Incorporated Founder Steven Bingler

