Glass Lewis Proxy Talk
Aflac Chairman and CEO Dan Amos to discuss the Company's
Advisory Vote on Compensation
Moderator: Robert McCormick, Chief Policy Officer, Glass, Lewis & Co. LLC
Date/Time: April 17, 2008, 2:00 p.m. ET

OPERATOR: Good day, ladies and gentlemen, and welcome to the Glass Lewis proxy talk conference call. All lines have been placed on a listen-only mode for this call. Institutional investors that would like to ask questions of the participants may do so by e-mailing them to proxytalk@glasslewis.com.

Before we get started, I'd like to remind everyone that our conference call series, and this call in particular, should be not considered a solicitation, a proxy by Glass Lewis and Company. Glass Lewis has not sought permission to do so from Securities and Exchange Commission, nor will it. This call is for information purposes only, and should not be construed as providing investment advice. In addition, Glass Lewis makes no representation regarding the accuracy, completeness or reliability of any statement, information, opinion or view presented by its guest speakers.

As a reminder, this conference call is being recorded. At this time, it is my pleasure to turn the call over to our host, Robert McCormick, Chief Policy Officer of Glass Lewis and Company. Robert, the floor is yours.

ROBERT MCCORMICK, CHIEF POLICY OFFICER, GLASS LEWIS AND COMPANY: Thank you very much. Hello, everyone, and welcome to proxy talk. Today we'll be discussing Aflac, Incorporated's advisory vote on compensation proposal, which is being submitted to shareholders at the company's annual meeting scheduled for May 5th of this year.

Joining me on the call is Aflac's Chairman and CEO, Daniel P. Amos. First a little background. Alone among U.S. public companies, Aflac is giving shareholders the opportunity to vote on a non-binding proposal on compensation, commonly known as a say on pay proposal.

So just to set the scene, the proposal actually resolves that the shareholders approve the overall executive pay for performance compensation policies and procedures employed by the company as described in the compensation discussion analysis, and the tabular disclosure regarding the named executive officer compensation, together with the accompanying narrative disclosure in the proxy statement.

The proposal is similar to what we've seen at companies in the U.K. and Australia, and a growing number of countries around the world. This year, we expect that at least 100 shareholder proposals this season asking these companies to adopt an advisory vote on compensation. In fact, in early votes, such a proposal received the majority vote of shareholders at Apple's annual meeting earlier this year.

Just want to remind anyone if you have any questions, please e-mail them to us at proxytalk@glasslewis.com, and we'll address them during the Q&A session later in the call.

But at this time, I'd like to ask Mr. Amos to provide some opening comments, and sort of set the scene for us in terms of the rationale behind allowing shareholders this opportunity. Mr. Amos, please go ahead.

DANIEL AMOS, CHAIRMAN AND CEO, AFLAC INCORPORATED: Thank you, Robert, and good afternoon.

Before January 1st, 2000, most people in the U.S. had never heard of Aflac. We were strong, profitable, yet once you got outside the southeast, only our customers and people who followed the insurance industry knew about the company. When we were interviewed by the news media, our notoriety was based on the fact that we insured one out of four households in Japan, and happened to be the second most profitable foreign company operating in any industry there. But thanks to the Aflac duck on New Year's Day, January of 2000, our anonymity in this country changed dramatically.

The Aflac duck helped catapult Aflac from a 10 percent brand awareness to over 90 percent, putting us in an elite category with Coke and Nike and UPS, just to name a few.

I'd like to start with a little history. Aflac was founded in 1955 in Columbus, Georgia, and is the principal subsidiary of Aflac, Incorporated, an international holding company. Aflac specializes in developing and marketing insurance products that gives consumers the opportunity to direct cash when it's needed most, when life-interrupting medical situations present financial challenges.

Our policies pay cash directly to the policyholder, regardless of other insurance they might have, and they can use the money as they see fit. Aflac has grown to become the number one provider of guaranteed renewable insurance in the U.S., and the number one insurance company in terms of individual policies in force in Japan. That's quite an accomplishment when you consider that the Nippon life has been number one for over 100 years.

Our market capitalization at the end of last year was nearly $31 billion. And of the 487 million shares outstanding, roughly 68 percent are owned by institutional investors, with the balance falling under the retail ownership. To me, one of the things that makes Aflac a one of a kind company is that it was founded more than 50 years ago by John, Paul and Bill Amos, who weren't actuaries or insurance experts. In fact, they'd never been in the insurance business; they were just three brothers from Florida who had an American dream, and enough determination to see a good idea through.

They practice what they preach, and instilled certain benefits into me when I was growing up. I was told repeatedly, if you take care of the employees, they'll take care of the business. At the same time, they taught me that the number one goal is to increase profits, that ultimately will increase shareholder value. For 10 years, Aflac has been on "Fortune's" list of the 100 best places to work, and when you couple that with our outstanding shareholder return, I believe that it's proven that we can do both.

In essence, they taught me that you have to be responsible to people, and as CEO of Aflac, that means employees, policyholders, sales associates, and most importantly the shareholders.

That brings me to why I've been asked to speak today, to talk about Aflac's adoption of say on pay. In late 2006, we received a say on pay shareholder proposal from Boston Common Asset Management, which asked Aflac to allow shareholders to provide feedback about Aflac's compensation practices. Our initial reaction when we received the proposal was, what have we done wrong? Our stock had performed extremely well, we had had a compound annual return of 22 percent over the last 18 years, and through the end of 2000, Aflac's stock was up 3,867 percent, or had gone from $1.90 a share to over $66 a share since I've been CEO.

Any way you look at it, our shareholders had been rewarded handsomely for their trust in management. In talking with Boston Common, we found that they had no problem with the company's performance, or with our say on pay performance. In fact, they applauded what we were doing. They simply felt that the owners of the company should have the right to vote on executive compensation.

So after discussion with the corporate governance and compensation committees, and the full board, I talked to the shareholders, both individual and large institutions. And they asked me to talk to them about say on pay, and their comment was is that it sounded good to them, which helped me conclude that it was the right thing for Aflac to do.

I then went back to the board's compensation and corporate governance committees, who thoughtfully considered the issue, and we put it before the full board. After thorough analysis, Aflac's full board of directors unanimously decided to adopt say on pay proposal at the February 2007 board meeting, believing it was the right action at the right time for the company.

After evaluating Aflac's compensation disclosures in the 2007 proxy, the board concluded that two years of comparable compensation data, not three, would be adequate for the shareholders to have the ability to make an informed vote. In turn, Aflac's board of directors moved the timing of the first say on pay vote up a full year from 2009 to 2008, next month to be exact.

And I do believe that timing is everything. Aflac's share returns 38.2 percent last year, compared to 5.5 for the S&P 500, and 8.9 for the Dow. I don't think that the timing for say on pay could be much better than that.

One of the main reasons we felt confident in voluntarily adopting say on pay is that we feel our overall performance based approach to compensation is appropriate, effective and consistent with our goals of building shareholder value. On every level of our company, we pay for performance, starting with our all commissioned sales force, and extending to every employee at Aflac. We all have goals, and we work hard to achieve them.

Another reason we felt it was appropriate to adopt say on pay is that we've always earned high marks for transparent and ethical approach to investor and shareholder relations. From policies to claims payments, and financial disclosure and compensation, we believe that our shareholders should have the right to know how executive compensation works at our company, and they should have a meaningful form in which they can provide input.

Our company adopting say on pay is just another element of focusing on clarity and transparency we have always lived by. I've been asked repeatedly, do you think say on pay should be adopted by all companies? And my answer is, is it's up the shareholders of each individual company, not me. I simply wanted to share Aflac's story, and why say on pay works for us.

Now we didn't go into it blindly, we know that there's some individuals that are not for pay for performance, and they will vote against executive compensation, no matter how the company is performing. They simply see executive pay as being too high, and they do not care about paying market value for a position. Some may even cast their votes based on what the stock is doing the day they receive their proxy. At the same time, we trust that most shareholders will understand executive compensation, and how it relates to the company's performance and vote accordingly.

The say on pay proposal is consistent with our compensation approach, and it's consistent with our commitment to transparency. If I would say anything to all companies when they ask about say on pay, I would simply say listen to your shareholders, because they own the company.

Now I'll be happy to take any questions.

MCCORMICK: Great, thank you very much. You know, in discussing the say on pay advisory votes, some of the justification is around the opportunity for increased dialogue between companies, particularly management, and also the board in some circumstances, and shareholders. And I was wondering if you could talk about your experience, if this has really encouraged that dialogue, and if that's something that either you have instigated to reach out to shareholders to ask them their thoughts, or shareholders in response to this proposal or just in general have been engaging in dialogue with you regarding compensation practices at Aflac?

AMOS: Well we – the board of directors has an independent group called the Mercer Group that reviews our compensation. Our compensation practices are the same practices that we have used, or the same formula we have used for the last 13 years. In that 13 years, the one thing I would say that we do differently is we have a meeting, we call it the financial analyst briefing, where we go in for about a day and a half, and we have over 100 institutions and analysts across the world, but predominantly the U.S., where we have our lead director, our audit – we invite all of our board members to be there.

And they can interact with any of our people that might have interest. But we have never received a single question on executive compensation in my 18 years as CEO. The first thing we ever received was this particular proposal, and you know, under the new proxy disclosures, there's great detail now on how our executive compensation is handled. And basically we've had none other than that.

MCCORMICK: OK, thanks. Now this is a non-binding proposal, and I'm wondering, there's been some criticism saying well, if it is non-binding, why even bother with it? And if there was a situation where there was either a high vote against or a majority vote against, what would be the reaction of yourself and the board?

AMOS: Well I've said that if the no vote is 51 percent or more, then we have to go back and change things. Obviously our shareholders aren't happy, I would hope that we would be in-tune enough, especially with the large institutions that we talk to constantly, that we would be aware that we have a problem. If we're at the point where we get 51 percent, before we know we've got a problem, we're certainly failing at communication at a minimum, if not failing in management of doing our job period.

So I would hope that could not happen. But assuming that it does, my answer is we have to change the practices, and that is a decision that of course the comp committee makes. But I am speaking on behalf of what they told me.

MCCORMICK: Right. Well certainly Aflac was not alone in terms of getting inquiries from certain shareholders asking companies to adopt an advisory vote on compensation. And obviously you're the first mover, but other companies such as Verizon and Blockbuster are going to submit these proposals to shareholders in 2009. Are there advantages or benefits to being the first adopter, if you will, or are there potential negatives from being the first company out there going through this?

AMOS: Well I think I would say that the positive thing that has happened we backed into accidentally. You know, I had someone ask me with the media, did you kind of plan this? Because you've gotten an awful lot of press. And the press that we've gotten is we've had an opportunity to tell people how well our company has done, like Robert, when we were talking earlier, and I was explaining to you about our shareholders, and I was saying that if you originally had bought 1,000 shares of our stock, which would have been $11,000, it's now worth $130 million.

We've had an opportunity – or since I've been CEO, it's gone from $1.80 to 66. That's been the positive side is being able to tell more people about who we are, and what we do. But as I said, had that proposal never come before us, we would have never done it, because I'd never gotten any questions about comp. So that's the positive side.

Is there a negative side? I guess the negative side is, is we're the guinea pig.

MCCORMICK: Right.

AMOS: We're going to be the first one to do, my comment – I've been asked whether I think it will pass or not. According to Securities and Exchange rules, I can not make a comment on that. But what I can say is, is with a 38 percent return last year, and a 22 percent compound return over my period as CEO, and I understand it's the top five, not just me, but I also understand that more people are interested in the CEO than anything else, that if we're not going to pass, I don't know who will. And so we'll just have to wait and see.

But we're encouraging our people, meaning our shareholders, to vote yes, and we hope that's what will happen. And we'll tell you on May the 5th.

MCCORMICK: OK. Now I'd like to turn to some of the concerns raised, and I'm wondering – I'd really like to get your impression. Some companies have felt that this is an example of shareholders – what they say is micro managing the company's compensation, which could lead to micro management in other areas, and in fact management by referendum. And an interesting opinion, as reported in a "New York Times" article on April 6th, Delaware governance professor, a very notable person, Charles Elson, felt that the say on pay is a slippery slope, which may encourage shareholders to usurp their board authority on other issues.

Is that something that you think could happen? And was that a concern you sort of weighed in your decision making?

AMOS: Well I'm only going to talk about how to fix Aflac, and then from there, you can take any view you want. From our perspective, our shareholders we feel should have the right to give us their view on an issue. They will be able to tell us, but ultimately that decision rests with the comp committee. I do feel like that an advisory vote is something you have to look at, study, and take it into consideration as you make those decisions. So I think they will give input.

I do believe that it is the responsibility of the shareholders to delegate to the board the overseeing of the company, and is the responsibility of the board to make sure management does their job. I think sometimes that instead of micro managing, you just need to kick people out. If we're not doing the job, don't nickel and dime me about running every little aspect of my business, just vote me out and get it over with. But – and I think that's what you need to do, and – at Aflac anyway.

Now what you do other places, I don't know, because I may not be a shareholder of that particular company. But in our case, that's the way to do it with us.

MCCORMICK: I'd like to pick up on a theme in terms of how shareholders could potentially address an issue at a company by kicking directors out. There's some companies, and even some institutions I've spoken with who feel like shareholders in effect already have voted on compensation practices, to your point by voting against the compensation committee members. We can look at the large votes against directors at Pfizer, Home Depot and Yahoo, much of that driven by compensation concerns, particularly misalignment of pay and performance, leading to the compensation changes, and/or executive changes of those companies.

And a more recent example, a high vote against one of the directors at Washington Mutual has led the company to rethink its bonus calculation methods to consider mortgage losses when calculating bonuses for top management have changed from the bank's recent policy to exclude those mortgage related credit losses.

It sounds like that's an approach that has at least got some thought from you, and I'm wondering if you can, comment on that, if people are unhappy with the compensation, should they not just – is that one consideration that they would not just vote against the report, but they also continue to vote against the compensation committee members? And in particular with companies moving to majority voting standard, that vote will have a real effect on companies, like with your policy, which requires director resignation submission.

AMOS: Well yes, all I can say is from our standpoint, we've addressed it. You know, the say on pay is going to give them the vote. I just believe it's the responsibility of the directors to just listen to the shareholders, and management has to listen to the shareholders accordingly, and how the shareholders communicate their message can come in many different ways.

But from our standpoint concerning comp, I think we've addressed it in this one issue alone. So I can't specifically address that one, I can tell you, for example, that in our case, we're constantly looking, specifically me, for issues that are out there that are on the minds of our institutions and large shareholders, and smaller shareholders. And one of the issues you brought up was majority vote. And we've never had that proposal.

But the state of Georgia has some rule that majority vote can not be enacted and thereby to change the law. And we have already as a company changed to approve majority vote as soon as approved by the state legislator. And so I think that's an issue to show that we as a company take that into account.

It – really all this stems about – around one issue in my opinion, and that is how do large institutions, shareholders, et cetera, communicate with management and board? And the one thing that I go back to that I said earlier is, I believe the one thing that we do that sets us apart is by having this annual meeting where we allow all of our big institutions to come to that meeting, and I have board members, I have even auditors, and all the management team, and we have breakout sessions where you have opportunities to talk. Everyone can interact, there's not a situation where management puts the directors over in a corner, and they can't talk to these shareholders.

They can all interact, sit next to them, do all the things that you would do. And then afterward, we always have discussions after the meeting in terms of what they learned, and were there any issues that we need to have on the forefront as we go into our board meetings. So I think that is the most important thing.

It's not that it come to the point where it's a boiling point, and people are upset, but rather there's constant communication taking place to where it never gets to that point.

MCCORMICK: Got you, thanks. And actually speaking about that communication theme, there's also been concerns raised by companies that if they get a high vote against or a majority vote against their compensation report, that they won't know what it means. Are people concerned about the amounts, or the design, or the performance metrics, or even the peers or something like that?

If – you had mentioned that you spend quite a bit of dialog, will there be a more formal process of reaching out to shareholders if you’re to try to figure out exactly what the reasoning was behind the vote against?

AMOS: Well all of this is new, but let me just say that – the old story that it will be – it's broke, and you've got to fix it. And so if you get a no vote, you got to tear it apart and find out why it's broken. And so we would have to go in and find out exactly what it is. You know, because it is the top five and not the CEO, the first question is, is the CEO or the top five? Then you're going to have to break it down to what part is it you don't like?

One of the concerns that I don't think institutions have, but individuals have, is they can become so focused on short-term. You know, a management team can have a good year, and it's not reflected in the stock in that given year. For example, we – our earnings were actually at Aflac up 15 percent last year, excluding currency. The stock was up 38 percent. That can't hold.

There's generally a high correlation between earnings growth and stock appreciation. So the odds are that it makes the next year a more difficult year in comparison. That – and so the actual shareholder return versus compensation may not match up for a 12 month period. But over a reasonable period, it should match up. And so those are the issues that we just have to communicate and make sure people understand, because if management is making the earnings, hitting the projections that they promised the street they would make, then they're doing their part of the job, and the market takes on its own market. And so we have to work within that framework.

MCCORMICK: Got you, thanks. As you probably know, there's a pending bill in Congress that is sponsored by Barney Frank in the house, and Barack Obama in the senate. And it's made it out of the house, but not the senate yet, which would – mandate a say on pay, in fact would be – look at the actual compensation, wouldn't be couched in terms of the report necessarily. You look at the CFA Institute, certainly not what anyone would consider an activist shareholder base, 76 percent support an advisor vote on compensation, but don't think that it should be mandatory. From your perspective, you already mentioned that somebody should decide on its own, you know, on a voluntary basis. But do you have any thoughts on the bill, and whether maybe there could be sort of a level playing field if all companies were required to do this?

AMOS: Well I'm not a politician. Whatever they decide will be up to them, but it's a moot point concerning Aflac, because we've already done it.

MCCORMICK: OK. I'd like to begin with some of the questions we're getting from some of our clients. It's been just a few years we've had the new disclosure, particularly the CD&A. And I was wondering if there was any different approach taken to design the CD&A given that this is at a very specific vote on the compensation practices at the company.

AMOS: None, but I will say, I think that it's becoming a point to where they're going to look at that one page more than anything else to determine what they think about compensation. I believe that large shareholders and institutions and specifically Glass Lewis and others will read it in great detail, and study it. But I think a lot of people will emotionally vote just looking at that table. And so I do think the table is very clear and straightforward. So from that standpoint, I think it helps to some degree.

MCCORMICK: Right. Another question from one of our clients, and this may be looking at the recent very good performance of the company. And was the decision to allow this influence by that very good performance? Meaning if the company had not experienced such good performance, would you have been more reluctant to take such a step and allow shareholders this vote?

AMOS: Well actually '07 was not – was a – let's see, I'll get it straight – '07 was a very good year for us, '06 was not as good a year. Our sales in Japan did not perform as well, and so the stock did not actually do as well. And we put it in the year when the stock really didn't perform that well, it was up slightly, but not much. But we got things back on track, and it improved. It was really all to do about they asked for it, and that's why I did it, and asked the board to support it. Nothing more, nothing less.

MCCORMICK: Right. Another question from a client, and I think that's to the point of the role of the board, vis-à-vis the shareholders. And the question is something – we've touched on some of the things before in terms of Aflac's plan of responding to shareholders' concerns when there are –as a client described, so many moving parts to the executive compensation, obviously making it very complex. And the negative vote could be ambiguous. But ultimately the question is, isn't it really up to the board to understand the company's context and market conditions when designing the compensation rather than the shareholders?

AMOS: Oh I think it's – I really think it's the board's responsibility, but they really have to turn to the professionals that studied it. I mean if you look at ours, they take 17 insurance companies, and they match it up in terms of how all of them are doing on certain things. They use revenue growth, they use earnings growth, but they give – and they give each particular area a one to four in terms of importance, four being the most, it counts four times. And for example, shareholder return counts our times, and revenue growth counts one, and earnings I think counts four times. And then there's some others, asset growth counts one, and some count two, and it varies.

I think it is the responsibility of the board, but you certainly, as a person myself that was a former chairman of a comp committee with another corporation one time, I'm no longer there, I'm no longer on the board. But I can tell you that you have to rely on these compensation experts, and the reason you have to rely on them is this – these issues are really not dealing with Dan Amos, it's really about what the positions were, and what happens if Dan Amos is run over tomorrow by an automobile and dies. Who do you replace him with, and how do you hire them, and what does it take?

And so we call it a benchmark position, whether it be a benchmark for a reporter, or a benchmark for a secretary, or a chief financial officer, or a CEO, what is it worth, and what does it take to get them? And that's where they help guide, and then within that framework, the board makes a decision on what they've heard, and decides accordingly.

MCCORMICK: Right. Well we certainly know if anything happens to you, you'll be covered by Aflac, I would suspect.

AMOS: You've got it.

MCCORMICK: One other question we got from a client is that, this has been in place in the U.K. since 2003. And I was wondering if you could give any thoughts, the thought that the U.K. is really a different market in that you have a more concentrated level of ownership, you have a code on best practices that there's much more of a compliant explained, principles base, you could call it rather more of a rules base routine than we have here in the U.S.

And that in the UK you have groups such as the ABI, which may set the – sort of the broader framework for all institutions, making it in fact easier for companies to sort of meet the concerns of the major institutions, whereas the U.S. is much more disparate ownership base, obviously geographically it's much larger, and you have very different points of view in terms of compensation say from, you know, a hedge fund investor versus a public pension, versus a mutual fund. And was that part of your consideration in allowing this?

AMOS: I think that's way too deep.

MCCORMICK: Yes.

AMOS: In our decision, it really boils down to symbolism here is one of the main things, that we had prided ourselves in being transparent in every way with our shareholders, to have turned this down knowing that the shareholders wanted it, sent a signal that we weren't trying to be transparent, or that we didn't want to listen to them. Even though we have always tried to listen to them. And so it became something that we said we need to do this, because we've heard from them, and that's what they've said.

It doesn't – we – it really didn't matter about all the outside issues. You know, a lot of people say to me, well you know, America, the general consumer, they like this, (dada, dada), basically none of that matters. It doesn't matter what happens in Europe, it doesn't matter what the person on the street says, the only thing that matters is what Aflac shareholders think. They can hire me, they can fire me, or they can hire and fire the board, and then the board can hire and fire me. But ultimately, that's really what matters, and that's really what all this boils down to.

Not general feelings, but specifically what our shareholders think. I've said all along, doesn't matter what anybody else thinks, only matters what our shareholders think.

MCCORMICK: Right. OK, well I think this has been very, very helpful. If there's any last comments you'd like to make, I'd certainly like to provide that opportunity, but certainly thank you very much, Dan, for joining us, and providing your perspective on this really groundbreaking proposal you're allowing shareholders to vote on.

AMOS: It's a pleasure to be here, and the only comment I have is if you're a shareholder, we appreciate you voting yes. Thank you very much.

MCCORMICK: Thank you. I just want to make a quick note that these proxy talks are held regularly. And our next proxy talk in a related theme will be Tuesday at – April 22nd, 2:00 Eastern. We're going to talk with John Wilcox, TIAA-CREF, to discuss TIAA-CREF's shareholder proposal at PepsiCo calling for an advisory vote on compensation at PepsiCo. As well as TIAA-CREF's experience with their own advisory vote for their plan participants, which took place last year. We'll be sending out invitations later today.

And as always, you can always e-mail us here at Glass Lewis, the e-mail address is proxytalk@glasslewis.com, if you have any comments or thoughts about a particular issue or meeting we should cover. Thanks again to Mr. Amos for joining us today, and that concludes today's proxy talk. Thank you, everyone.

END