

Sector: Financials  
 Exchange: NYSE  
 State of Incorporation: Delaware

**SUMMARY**

The company is the parent holding company for a group of insurance and non-insurance companies that collectively operate throughout North America, the United Kingdom, and, to a limited extent, in certain other countries around the world. The Company's principal operating subsidiaries in the United States are Unum Life Insurance Company of America (Unum America), Provident Life and Accident Insurance Company (Accident), The Paul Revere Life Insurance Company (Paul Revere Life), and Colonial Life & Accident Insurance Company (Colonial), and in the United Kingdom, Unum Limited. The Company, through its subsidiaries, is the largest provider of group and individual income protection insurance in North America and the United Kingdom. It also provides a complementary portfolio of other insurance products, including long-term care insurance, life insurance, employer- and employee-paid group benefits, and related services. On June 30 1999 Unum Corporation merged into Provident and the merged corporation was called UnumProvident Corporation. Provident had previously been reorganised in a share exchange with its predecessor Provident Life and Accident Insurance Company of America in December 1995.

**1. Elect the Directors**

<p><b>1.1 Thomas R Watjen</b>          CEO. Appointed in 2002 although has 11 years of service and was CFO at a predecessor company. Received basic pay increase of 5% and increase in target annual bonus of 20% during the year. Awarded annual bonus of \$900,000 for performance in 2004 despite a loss of \$346m for 2004.</p>	<p>Committees: .</p>	<p><b>FOR</b></p>
<p><b>1.2 Jon S Fossel</b>          Director. Independent by company, not independent by PIRC as he is the former CEO of a mutual fund manager and a current trustee of mutual funds one of which (the Oppenheimer Quest balance Fund) has the second largest mutual fund holding in the company. There are insufficient independent directors on the board in our view.</p>	<p>Committees: Audit.</p>	<p><b>WITHHOLD</b></p>
<p><b>1.3 Gloria C Larson</b>          Director. Independent by company, not independent by PIRC as as she has a senior position at Foely Hoag, a law firm which advises the company There are insufficient independent directors on the board in our view.</p>	<p>Committees: Audit,.</p>	<p><b>WITHHOLD</b></p>
<p><b>1.4 William J Ryan</b>          Director. Independent by company, independent by PIRC. Member of the compensation committee responsible for awarding CEO a pay rise and increased bonus opportunity in addition to a \$0.9m bonus in a year in which a \$346m loss was recorded.</p>	<p>Committees: Comp [Chair], Nom.</p>	<p><b>WITHHOLD</b></p>

**2. Approve amendments to the 1999 Stock Plan**

**ABSTAIN**

The board seeks approval for various amendments to the 1999 stock plan. The existing plan is used for long term executive compensation but PIRC notes that annual awards of restricted stock are made to executives under the plan based on the prior years' performance. We do not accept that one year's performance is long term performance. Under the existing plan 3 pay-outs were made to the CEO and another named officer during 2004. The first of these related to a first quarter 2003 restricted stock grant which vested on achievement of undisclosed ROE, EPS and net income targets and undisclosed corporate objectives. The award only partially vested in 1st quarter 2004 but the remaining part of the grant was not forfeit despite the targets not having been fully met. More of the grant then vested later in 2004. It is not clear if failure to meet targets results in grants being forfeit or how long after a grant this might happen. The third 2004 pay out is for performance in 2004 against undisclosed earned premium, ROE and capital formation targets for a grant made in first quarter 2004.

As with other pay outs no minimum performance threshold is disclosed and shareholders are unable to determine what level of performance (above that already compensated for by salary and bonus) is expected of executives in order to get a minimum pay out under the 1999 stock Plan. PIRC notes the 2 year holding period for the 2004 restricted stock award but also notes that executives will receive this stock in 2 years regardless of performance during this period. Under the existing plan participants can receive an award worth \$10m each year ( as long as it is not in the form of options or SARs). Given the absence of transparent performance criteria and the existence of an annual cash bonus scheme we consider this limit excessive. The existing plan allows all outstanding options or SARs to vest or any restrictions on stock awards to lapse on a Change of Control without reference to performance. The rules of the scheme allow total discretion to the board to alter or amend the Stock Plan without shareholder approval other than with respect to regulatory or legal changes.

None of the above elements of the scheme will be altered by the proposed amendments. The proposed amendments will do nothing to ensure that performance periods are longer or to improve disclosure of performance criteria and targets. Change in control provisions are unaltered and the committee retains total discretion over the nature of performance criteria, the point at which performance is deemed worthy of a pay out and level at which a minimum pay out is made. The proposal if approved will result in an increase in the proportion of total shares available under the plan allocated for restricted stock award rather than other types of award; elimination of the evergreen provision; elimination of the reload provision; and the introduction of a 3 year ratable minimum vesting period. Whilst we regard these changes as positive the proposals will not address some significant weaknesses in the plan and we advise abstention.

### **3. Ratify Ernst and Young as auditors**

**FOR**

Ernst & Young LLP proposed. Unacceptable non audit fees (\$39,051) were more than 1% of audit and audit related fees (\$7,370,164) during the year under review. Non-audit fees over a three year basis were more than 8% of audit and audit related fees.

### **4. Introduce affirmative majority voting for the election of directors**

**FOR**

#### **Shareholder proposal: Massachusetts State Carpenters Pension Fund**

The proponents seek to replace the current system of plurality voting under which directors may be elected by as little as a single affirmative vote with a system by which each director requires a majority of the vote in order to be elected. Unusually the board is not making a recommendation on this proposal and in its response it recognises that there is merit to the principle of affirmative majority voting. A similar resolution was put forward by the same proponents last year, however this sought an affirmative majority of all votes rather than votes cast. This point was raised by the board in their recommendation to vote against the proposal. The board points to unresolved technical and legal issues associated with the introduction of majority voting although these issues are not made explicit. Last year the board response to a similar resolution pointed out that the proponents had not set out an acceptable solution for what happens when a candidate does not receive a majority of votes. The proponents have again failed to address this issue but the board has not repeated its concerns over the issue.

PIRC considers that the three possible outcomes arising from failure to receive a majority vote are all preferable to the existing system given that shareholder will again get an opportunity to vote on board members at a point in the future. The three options are for the board to appoint a candidate, the director to continue in office or for the board seat to remain vacant. PIRC welcomes the boards acceptance of the principle in question. We consider that any change in the formal rules by which a company is governed will raise technical issues which need to be addressed although we do not consider that this should prevent the adoption of a formal commitment to change to majority voting if and when these issues have been resolved.

**5. Establish an office of the board of directors to enable direct communication on corporate governance matters**

**ABSTAIN**

**Shareholder proposal: New York City Pension Funds**

The proponents are seeking to create a means of direct communication with non-employee directors and quote regulatory pronouncements and academic research in an attempt to illustrate that a body of opinion other than the proponents is in favour of formal channels of communication between shareholders and the companies. The company response claims that a formal system has been adopted and is outlined in the report by the Governance Committee contained in the proxy filing. PIRC does not consider that the statement referred to by the company equates to a formal means of communication with non-employee directors as ought by the proponents. The company secretary is responsible for passing all correspondence addressed to non-employee directors to the chairman who then decides whether to pass it on. Although directors are entitled to ask if they can see mail with their name on it they appear to have no automatic right to receive it without prior screening.

It is not clear in the proponents arguments how they wish this process to be changed other than the establishment of an office via which such communications take place. The proponents do not state whose job it should be to decide on whether a communication is concerned with governance matters or not. The proponents also fail to say whether the role they wish to create could be held by the chairman or whether the incumbent need by an independent director. Under the current system the company could apparently meet the proponents request by simply adding a formal communication role to the chairman's responsibilities and extending his title. PIRC considers that the current process for shareholder communication as set out by the company is not adequate but that the proposed changes would not address the weaknesses of the current system.

## CG SUMMARY

### BOARD STRUCTURE & ACCOUNTABILITY

- 1 The roles of chairman and CEO were split in 2003. Up to December 2004 the chairmans role was held jointly but with the retirement of co-Chairman Lawrence Pugh the role is now held by an individual director, William Pollard.
- 2 The board is classified
- 3 At the conclusion of the forthcoming AGM the board will be comprised of 1 executive officer and 11 non-employee directors.
- 4 We consider 5 of the non-employee directors to be independent.
- 5 The audit committee is comprised of 5 members, 1 of whom is considered independent by PIRC.
- 6 The compensation committee is comprised of 4 members, 3 of whom are considered independent by PIRC.
- 7 The nomination committee is comprised of 4 members, 1 of whom is considered independent by PIRC.

### AUDIT

- 1 Unacceptable non audit fees (\$39,051) are more than 1% of audit and audit related fees (\$7,370,164) during the year under review.
- 2 On a three year aggregate basis unacceptable non audit fees are 8% of audit fees.
- 3 The audit firm has been in place since at least 1997.

### SHAREHOLDERS

- 1 No shareholder rights plan
- 2 The company is involved in six class action law suits. Five of these complaints have been consolidated and in March 2005 the company applied for a dismissal of the compaints which has not yet been rules upon. Four additional complaints accusing the company of issuing false and misleading statements to investors have also been consolidated and pre-trial proceedings are not yet complete. The company is also defending several other policy holder class actions and plan beneficiary class actions. Former board members and executives are also defendants in derivative legal action. No reserves have been created for a negative outcome to these actions however the company states that such an outcome could affect the company's ability to write new business or impact on consolidated results in a period.
- 3 The company has not expensed all options issued after the effective date of SGFAS 123 at fair value. If it had done so the reported net loss would have been greater by \$12.2m.

### FINANCIALS

	Yr End	31.12.04
	2004	2003
	\$ (000's)	\$ (000's)
Total Revenue	991,600	9,259,100
Earnings before Tax	- 435,200	593,200
Net Earnings	- 386,400	401,200
Basic Net Earnings per share (\$)	- 1.40	1.66
Diluted Net Earnings per share (\$)	- 1.40	1.65
Dividend per ordinary share (\$)	0.37	0.59
Shareholders' Funds	7,271,000	6,843,200

## 1. DIRECTORS

### 1.1 THE BOARD

**Board Changes during the year:** Lawrence Pugh retired in December 2004 as a director and co-chairman.

PIRC assesses a non-executive director's independence according to PIRC's US Shareholder Guidelines. Comments represent PIRC's analysis based on company information. [Chair] = committee chairman.

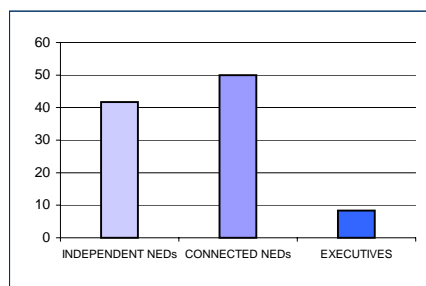
NAME	POSITION	AGE	APPT	TERM ENDS	COMMS	OTHER POSITIONS	COMMENT
C William Pollard	Chairman	66	1992	2007	Nom [Chair], Audit	The ServiceMaster Company [Ex-Chairman and CEO] {1983-2002}; Herman Miller, Inc [Director] {n/d-present}.	Independent by company, not independent by PIRC as he has served on the board (or the board of a predecessor company) for 13 years
Thomas R Watjen	CEO	50	2002	2008			Appointed in 2002 although has 11 years of service and was CFO at a predecessor company. Received basic pay increase of 5% and increase in target annual bonus of 20% during the year. Awarded annual bonus of \$900,000 for performance in 2004 despite a loss of \$346m for 2004.
E Michael Caulfield	Director	58	2004	2006	Audit [Chair],	Prudential Insurance Company [Executive VP] {1989-2000}; Greenwich Associates [Partner] {n/d-1989}; Mellon National Corp [n/d] {n/d}.	Independent by company, independent by PIRC.
Jon S Fossil	Director	63	2002	2008	Audit	OppenheimerFunds [Chairman/CEO] {n/d-1996}; Oppenheimerfunds mutual funds [Trustee] {n/d-present}; Northwestern Energy [Director] {2004-present}.	Independent by company, not independent by PIRC as he is the former CEO of a mutual fund manager and a current trustee of mutual funds one of which (the Oppenheimer Quest balance Fund) has the second largest mutual fund holding in the company.
Pamela Godwin	Director	56	2004	2006	Comp,	Change Partners [President] {2001-present}; GMAC Insurance [Pres and COO of personal lines agency division] {1999-2001}; Advanta Corp [Snr VP customer management credit card division] {n/d}; Academy Insurance Group [COO] {n/d}; Colonial Penn Group [Snr VP Property claims] {1974-1988}.	Independent by company, independent by PIRC.

Ronald Goldsberry	Director	62	1993	2007	Audit,	OnStation Corp [Chairman] {1999-present}; Deloitte consulting [Independent Contractor] {n/d-present}; Ford Motor Company [Global VP and general manager of Global Ford Customer Service] {1991-1996}.	Independent by company, not independent by PIRC as he has served on the board (or the board of a predecessor company) for 12 years
Thomas Kinsner	Director	61	2004	2006		Bluecross Blueshield Assoc Tennessee [CEO] {1994-2003}; BlueCross Blueshield Assoc Chicago [COO] {1991-1994}; BlueCross BlueShield Georgia [CEO] {1976-1991}.	Independent by company, independent by PIRC.
Gloria C Larson	Director	54	2004	2008	Audit,	Foley Hoag LLP [Co-Chair Government Practices Group] {}; Commonwealth of Massachusetts [Secretary of Economic Affairs and Secretary of Consumer Affairs] {1991-1996}; Federal Trade Commission [Deputy Director Consumer Protection] {n/d-1991}; RSA Security Inc [Director] {n/d-present}; Keyspan Corporation [Director] {n/d-present}.	Independent by company, not independent by PIRC as she has a senior position at Foely Hoag, a law firm which advises the company
Hugh O. Maclellan Jr	Director	65	1975	2007	Nom	The Maclellan Foundation, Inc [President] {n/d-present}; SunTrust Bank Chatanooga [Director] {n/d-present}; Covenant Transport [Director] {n/d-present}.	Independent by company, not independent by PIRC as he is the great grandson of the company founder. His family have been involved in the management of the company since its foundation he has served on the board (or the board of a predecessor company) for 30 years. PIRC notes that a SunTrust Bank company SunTrust Robinson Humphreys acted as co managers of a \$1bn capital raising exercise in 2003 for the company and that Mr Maclellan is a director of Suntrust Bank in Chatanooga where the company is based. he is considered to be independent by the company.

A.S. (Pat) MacMillan Jr	Director	61	1995	2006	Comp, Nom	Team Resources Inc [CEO] {1980-present}; The Maclellan Foundation [Trustee] {n/d-present}; MetoKote Corporation [Director] {n/d-present}; Pliant Corporation [Director] {n/d-present};	Independent by company, not independent by PIRC as he is a trustee of the charitable foundation set and run by the Maclellan family who founded the company and he has served on the board (or the board of a predecessor company) for 10 years
John W Rowe	Director	59	1999	2007	Comp,	Exelon Corporation [CEO] {2004-present}; Unicom Corporation [Chairman,CEO] {1998-n/d}; New England Electric System [CEO] {1989-1998}; FleetBoston Financial Corp [Director] {n/d-2002}; Sunoco, Inc [Director] {n/d-present}; The Northern trust [Director] {n/d-present}.	Independent by company, independent by PIRC.
William J Ryan	Director	61	2004	2008	Comp [Chair], Nom	Banknorth Group Inc [Chairman, CEO] {n/d-present}; Peoples Heritage Financial Group [Chairman, CEO] {1989-2000}; Bank of New England North [CEO] {n/d-1989}; Wellpoint, Inc [Director] {n/d-present};	Independent by company, independent by PIRC. Member of the compensation committee responsible for awarding CEO a pay rise and increased bonus opportunity in addition to a \$0.9m bonus in a year in which a \$346m loss was recorded.

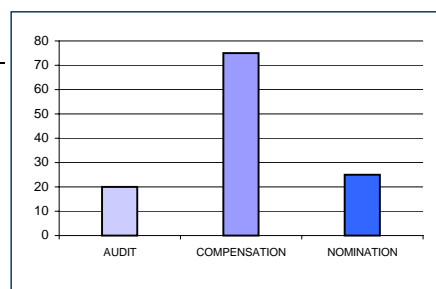
## 1.2 BOARD COMPOSITION POST AGM

	NUMBER	%
INDEPENDENT NEDs	5	42
CONNECTED NEDs	6	50
EXECUTIVES	1	8
<b>TOTAL</b>	<b>12</b>	<b>100</b>



## 1.3 BOARD COMMITTEES POST AGM

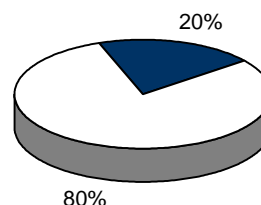
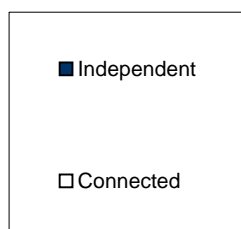
	MEMBERS	% EXEC	% IND	MEETIN
AUDIT	5	0	20	13
COMPENSATION	4	0	75	9
NOMINATION	4	0	25	n/d



Number of board meetings in year: 14  
 Number of NED-only meetings in year: 5  
 Directors not attending at least 75% of meetings: 0

## 2. AUDIT & REPORTING

### AUDIT COMMITTEE INDEPENDENCE:



## 2.1 AUDITOR PAYMENTS

Auditors: Ernst & Young LLP  
 Auditor appoint date: at least 1997

	2004 \$	2003 \$	2002 \$
<b>Statutory audit fee</b>	6,680,778	4,209,762	3,020,459
<b>Audit Related</b>	689,386	346,768	320,919
	7,370,164	4,556,530	3,341,378
<b>Non-audit</b>			
TAX Services	39,051	15,000	145,164
Other services	-	76,841	535,595
<b>Total non-audit fees</b>	39,051	91,841	680,759

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