AT&T CORP
Form DEF 14A
March 25, 2004

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant /X/

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Check the appropriate box:

/ / Preliminary Proxy Statement

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/X/ Definitive Proxy Statement

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/ / Soliciting Material Pursuant to §240.14a-12

**AT&T CORP.**

(Name of Registrant as Specified In Its Charter)

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# 2004 NOTICE OF ANNUAL MEETING and PROXY STATEMENT

The 119th Annual Meeting of Shareowners of AT&T Corp. will be held at the Austin Convention Center, 500 East Cesar Chavez Street, Austin, Texas, on Wednesday, May 19, 2004, at 9:30 a.m. local time, for the following purposes:

to elect ten directors;

to ratify the appointment by the Audit Committee of independent auditors to examine our accounts;

to approve the AT&T 2004 Long Term Incentive Program; and

to conduct any other business, including shareowner proposals, as may properly come before the meeting or any adjournment or postponement of the meeting.

Shareowners at the close of business on March 25, 2004, are entitled to vote their proxies. Only shareowners with an admission ticket or proof of stock ownership will be admitted to the meeting.

Robert S. Feit
Vice President    Law and Secretary

March 25, 2004

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YOU CAN VOTE IN ONE OF THREE WAYS:

(1) Use the toll-free telephone number on your proxy card to vote by phone;

(2) Visit the website noted on your proxy card to vote via the Internet; or

(3) Sign, date and return your proxy card in the enclosed envelope to vote by mail.

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One AT&T Way
Bedminster, NJ
07921-0752

**David W. Dorman**
Chairman of the Board
and Chief Executive Officer

March 25, 2004

Dear Shareowner:

It is a pleasure to invite you to our 2004 Annual Meeting of Shareowners in Austin, Texas, on Wednesday, May 19, 2004, beginning at 9:30 a.m. local time, at the Austin Convention Center. This will be our 119th Annual Meeting of Shareowners. If you plan to join us at the meeting, an admission ticket will be required and is attached to the proxy card. For your convenience, a map of the area and directions to the Convention Center are printed on the back inside cover of the proxy statement.

The proxy statement continues to be a critical element of our corporate governance process. Its purpose is to answer your questions and provide you with important information regarding our Board of Directors and senior management. The material includes proposals that require your vote and information that describes our corporate governance practices.

Whether you own a few or many shares of stock and whether or not you plan to attend, it is important that your shares be voted on matters that come before the meeting. Registered and many broker-managed shareowners can vote their shares by using a toll-free telephone number or the Internet. Instructions for using these convenient services are provided on the proxy card. Of course, you may still vote your shares by marking your votes on the proxy card, signing and dating it and mailing it in the envelope provided. If you sign and return your proxy card without specifying your choices, it will be understood that you wish to have your shares voted in accordance with the directors' recommendations.

I look forward to seeing you on May 19 in Austin.

Sincerely,

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## INFORMATION ABOUT THE MEETING AND VOTING

***When were proxy materials mailed?***

This proxy statement and proxy card were first mailed on or about March 25, 2004, to owners of voting shares of AT&T in connection with the solicitation of proxies by our Board of Directors for the 2004 Annual Meeting of Shareowners in Austin, Texas. Proxies are solicited to give all shareowners of record at the close of business on March 25, 2004, an opportunity to vote on matters that come before the annual meeting. This procedure is necessary because shareowners live in all U.S. states and abroad and most will not be able to attend.

***What am I voting on?***

The Board is soliciting your vote for:

- election of ten directors;
- ratification of the appointment by the Audit Committee of independent auditors;
- approval of the AT&T 2004 Long Term Incentive Program (the 2004 Plan); and
- action upon such other matters, including shareowner proposals, as may properly come before the meeting or any adjournment or postponement of the meeting.

***Who is entitled to vote?***

Shareowners of record at the close of business on March 25, 2004, the record date, are entitled to vote on matters that come before the meeting. Shares can be voted only if the shareowner is present in person or is represented by proxy.

***How many votes do I have?***

Each share of AT&T common stock that you own as of the record date entitles you to one vote. On March 1, 2004, there were 793,522,585 outstanding shares of our common stock.

***How do I vote?***

All shareowners may vote by mail. Registered shareowners who own their shares in their own name and most beneficial shareowners who own shares through a bank or broker also may vote by telephone or the Internet. If one of these options is available to you, we strongly encourage you to use it because it is faster and less costly. Registered shareowners can vote by telephone by calling **1-800-273-1174** or on the Internet at **http://att.proxyvoting.com**. Please have your proxy card in hand when calling or going online. To vote by mail, please sign, date and mail your proxy card in the envelope provided.

If you own your shares through a bank or broker, you should follow the separate instructions they provide you. Although most banks and brokers now offer telephone and Internet voting, availability and specific processes will depend on their voting arrangements.

For participants in the AT&T Shareowner Dividend Reinvestment and Stock Purchase Plan or the AT&T Amended 1996 Employee Stock Purchase Plan, your shares will be voted as you specify on your proxy card and will not be voted if the proxy card is not returned or if you do not vote by telephone or the Internet. For employee shareowners participating in the AT&T Long Term Savings Plan for Management Employees, the AT&T Long Term Savings and Security Plan, the AT&T Retirement Savings and Profit Sharing Plan, the AT&T of Puerto Rico, Inc. Long Term Savings Plan for Management Employees, or the AT&T of Puerto Rico, Inc. Long Term Savings and Security Plan, your shares will be voted by the trustee of each applicable plan as you specify on your voting instruction form. If your voting instruction form is not returned, the trustee will vote your shares in the same proportion as the shares for which instructions were received from all other participants in that plan. If you wish to abstain from voting on any matter, you must indicate this on your voting instruction form. You cannot vote your plan



shares in person at the meeting. To allow sufficient time for voting, the trustee must receive your voting instructions by no later than 9:00 a.m. EST on Friday, May 14, 2004.

If you attend the annual meeting in person, you may request a ballot when you arrive. If your shares are held in the name of your bank, broker, or other nominee, you need to bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on March 25, 2004, the record date for voting.

***Do we have a policy for confidential voting?***

We have a confidential voting policy. All proxies and other voting materials, including telephone and Internet voting, are kept confidential and are not disclosed to us or our officers and directors, subject to standard exceptions. Such documents are available for examination only by the inspector of election and certain personnel associated with processing proxy cards and tabulating the vote. One independent inspector of election, an officer of IVS Associates, Inc., has been appointed.

***What if I return my proxy but do not mark it to show how I am voting?***

If your proxy card is signed and returned without specifying your choices, the shares will be voted as recommended by the Board.

***What if other items come up at the annual meeting and I am not there to vote?***

When you return a signed and dated proxy card or provide your voting instructions by telephone or the Internet, you give the Proxy Committee (the members of which are listed on your proxy card) the discretionary authority to vote on your behalf on any other matter that is properly brought before the annual meeting.

***Can I change my vote?***

You can change your vote by revoking your proxy at any time before it is exercised in one of four ways:

- notify our Corporate Secretary in writing before the annual meeting that you are revoking your proxy;
- submit another proxy with a later date;
- vote again by telephone or the Internet; or
- vote in person at the annual meeting.

***What does it mean if I receive more than one proxy card?***

Your shares are likely registered differently or are in more than one account. You should vote each of your accounts by telephone, the Internet, or mail. If you mail your proxy cards, please sign, date and return each proxy card to guarantee that all of your shares are voted. If you wish to combine your shareowner accounts in the future, you should contact our transfer agent, EquiServe, at 1-800-348-8288. Combining accounts reduces excess printing and mailing costs, resulting in savings for us that benefits you as a shareowner.

***Why did I receive only one set of proxy materials although there are multiple shareowners at my address?***

In accordance with a notice sent to eligible shareowners that share a single address, we are sending only one set of proxy materials, that includes a proxy card for each household member, to that address unless we receive instructions to the contrary from any shareowner at that address. This practice, known as householding, is used to reduce our printing and postage costs. If a shareowner of record residing at such an address wishes to receive a separate set of proxy materials in the future, he or she may contact our transfer agent at 1-800-348-8288, or by e-mail to att@equiserve.com, or write to EquiServe, P.O. Box 43007, Providence, RI 02940-3007. If you are a shareowner of record that receives multiple copies of our proxy materials, you can request householding by



contacting us in the same manner. If you own shares through a bank, broker, or other nominee, you can request householding by contacting the nominee.

***What constitutes a quorum?***

The presence of the owners of 40 percent of the shares entitled to vote at the annual meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you vote by telephone or the Internet, or if you vote at the annual meeting.

Abstentions and shares voted by a broker or bank holding shares for a beneficial owner are counted as present and entitled to vote for determining a quorum.

***What vote is required to approve each proposal?***

***Election of Directors:*** The ten nominees who receive the most votes will be elected. Any shares not voted (whether by abstention or otherwise) have no impact on the vote.

***Ratification of Independent Auditors:*** This proposal requires the affirmative vote of a majority of the votes cast. Any shares not voted (whether by abstention or otherwise) have no impact on the vote.

***Approval of the AT&T 2004 Long Term Incentive Program (the 2004 Plan):*** The affirmative vote of a majority of the votes cast for or against the proposal is required to approve the 2004 Plan provided that the total vote cast on the proposal represents over 50% of all votes entitled to be cast on the proposal.

***Shareowner Proposals:*** Approval of each of the four shareowner proposals requires the affirmative vote of a majority of the votes cast. Any shares not voted (whether by abstention or otherwise) have no impact on the vote.

***What are the Board's Recommendations?***

The Board recommends a vote FOR Election of Directors, Ratification of Independent Auditors and Approval of the 2004 Plan and AGAINST each of the four shareowner proposals.

***How were the nominees for director selected?***

Each of the ten nominees was approved for inclusion on our slate of directors by our Governance and Nominating Committee. Mr. Dorman, our Chairman of the Board and Chief Executive Officer, is one of our executive officers. Mr. Derr, Ms. Eickhoff, Mr. Herringer, Dr. Jackson and Messrs. Madonna, McHenry and White were elected by our shareowners as directors at our June 2003 annual meeting and are standing for re-election.

Mr. Aldinger was elected as a director by our Board on July 16, 2003, to fill a vacancy on the Board. He was recommended to the Board by our Chief Executive Officer.

Mr. Henkel was elected as a director by our Board on February 23, 2004, to fill a newly created Board position. He was recommended to the Board by one of our non-employee directors.

***How does the Board determine which directors are independent?***

The standards for determining independence are set forth in our Corporate Governance Guidelines which are available on our Investor Relations Website (**www.att.com/ir/cg**) and are attached as Appendix B. Our Guidelines meet or exceed the new listing standards adopted in 2003 by the New York Stock Exchange (NYSE.)

Pursuant to the Guidelines, the Board undertook its annual review of director independence in March 2004. During this review the Board broadly considered all relevant facts and circumstances, not merely from the standpoint of a director but also from that of persons or organizations with which a director has a relationship. As a result of this review, our Board affirmatively determined that all of the directors nominated for election at our 2004 annual meeting, other than our Chairman of the Board and Chief Executive Officer, Mr. Dorman, are independent and have no material relationship with us.



***How can I recommend a candidate for election to the Board?***

Shareowners who wish to recommend a candidate for election to our Board should write to: Vice President Law and Secretary, AT&T Corp., Room 3A123, One AT&T Way, Bedminster, NJ 07921-0752, stating in detail the qualifications of a candidate for consideration by the Governance and Nominating Committee. In considering Board candidates, the committee seeks individuals of proven judgment and competence who are outstanding in their respective fields. The committee considers such factors as experience, education, employment history, special talents or personal attributes, anticipated participation in Board activities and geographic and diversity factors. The committee process for identifying and evaluating nominees would include detailed consideration of the recommendations and opinions of members of our Board, our executive officers, our executive human resources department and our shareowners. There would be no difference in the process of evaluation of candidates recommended by a shareowner and those recommended by other sources.

***How can I communicate with our Board?***

Shareowners interested in communicating directly with our Board of Directors may do so by writing to: Board of Directors, AT&T Corp, P.O. Box 406, Bedminster, NJ 07921-0752. Effective February 18, 2004, the Governance and Nominating Committee of our Board approved a process for handling letters received by us and addressed to members of the Board. Under that process, our Corporate Secretary, or members of his staff, review all such correspondence and regularly forward to each non-employee director a summary of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deal with the functions of the Board or the Board's committees, or that he otherwise determines require their attention. Directors may at any time review a log of all correspondence received by us that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of our internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

***How do I access proxy materials on the Internet?***

Shareowners can access our Notice of Annual Meeting and Proxy Statement and our 2003 Annual Report on the Internet on our Investor Relations Website at **www.att.com/ir**. For future shareowner meetings, registered shareowners can further save us expense by consenting to access their proxy statement and annual report electronically. You can choose this option by marking the "Electronic Access" box on your proxy card or by following the instructions provided when you vote by telephone or the Internet. If you choose this option, prior to each shareowner meeting you will receive your proxy card in the mail along with a notice of the meeting and instructions for voting by mail, telephone, or the Internet. You may select Electronic Access for each account held in your name. Your choice will remain in effect unless you revoke it by contacting our transfer agent, EquiServe, at 1-800-348-8288 or visiting our Investor Relations Website at **www.att.com/ir.**

***How do I submit a shareowner proposal for next year's annual meeting?***

Shareowner proposals may be submitted for inclusion in our 2005 proxy statement after the 2004 annual meeting, but must be received no later than 5:00 p.m. EST on Saturday, November 27, 2004. Proposals should be sent via registered, certified, or express mail to: Vice President Law and Secretary, AT&T Corp., Room 3A123, One AT&T Way, Bedminster, New Jersey 07921-0752.

***What do I need to do to attend the annual meeting?***

If you are a registered shareowner, you should use the admission ticket that is attached to your proxy card. If you will attend the meeting, please be sure to respond to the "I/We plan to attend the Annual Meeting" question when you vote. A beneficial shareowner may obtain an admission ticket in advance by sending a written request, with proof of ownership such as a bank or brokerage firm account statement, to: Manager Proxy, AT&T Corp., Room 3A134, One AT&T Way, Bedminster, New Jersey 07921-0752.



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Shareowners who do not bring admission tickets to the meeting may be admitted upon verification of ownership at the admissions counter at the meeting site.

If you attend the meeting, you may be asked to present valid government-issued photo identification, such as a driver's license or passport, before being admitted. Cameras, recording devices and other electronic devices will not be permitted, and attendees may be subject to security inspections or other security precautions.

The Austin Convention Center is fully accessible to disabled persons, and sign interpretation and wireless headsets will be available for our hearing-impaired shareowners.

Highlights of the annual meeting will be available on our Investor Relations Website at **www.att.com/ir**.

## INFORMATION ABOUT OUR BOARD AND CORPORATE GOVERNANCE

### BOARD OF DIRECTORS

The Board is responsible for establishing broad corporate policies and monitoring our overall performance. However, in accordance with corporate legal principles, the Board is not involved in day-to-day operating matters. Members of the Board are kept informed of our business by participating in Board and committee meetings, by reviewing analyses and reports sent to them each month and through discussions with our Chairman and other officers.

The Board held 11 meetings and the committees held 23 meetings in 2003. Each of the directors attended at least 75% of the meetings of the Board and its committees. The average attendance in the aggregate at the total number of meetings of the Board and the total number of committee meetings was 92%. It is our policy that directors should attend the annual meeting, absent unusual circumstances. Seven of the nine members of our Board attended the 2003 annual meeting.

Our non-employee directors meet in executive session without any management directors or employees present approximately eight times each year. Our Board does not designate any specific director to preside over these meetings.

**ELECTION OF DIRECTORS (Proposal 1 on Proxy Card)**

Our Proxy Committee intends to vote for the election of the ten nominees listed on the following pages. These nominees have been selected by the Board on the recommendation of the Governance and Nominating Committee. If you do not wish your shares to be voted for particular nominees, please identify the exceptions in the designated space provided on the proxy card or, if you are voting by telephone or the Internet, follow the instructions provided when you vote. Directors will be elected by a plurality of the votes cast. Any shares not voted, whether by abstention or otherwise, have no impact on the vote.

If at the time of the meeting one or more of the nominees have become unavailable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Governance and Nominating Committee or, if none, the size of the Board will be reduced. The Governance and Nominating Committee knows of no reason why any of the nominees will be unavailable or unable to serve.

Directors elected at the annual meeting will hold office until the next annual meeting or until their successors have been elected and qualified. For each nominee there follows a brief listing of principal occupation for at least the past five years, other major affiliations and age as of March 1, 2004.

**NOMINEES FOR ELECTION AS DIRECTORS**

***William F. Aldinger*** **Age:** 56 **Director Since:** 2003

Mr. Aldinger is Chairman and Chief Executive Officer of HSBC North America Holdings Inc., a financial services company. He joined Household International, Inc., a predecessor company, in 1994 as President and Chief



Executive Officer. Mr. Aldinger became Chairman of Household International, Inc. in May 1996. He is a director of HSBC Holdings plc, MasterCard International and Illinois Tool Works Inc. Mr. Aldinger is a member of the boards of Children's Memorial Medical Center/Children's Memorial Hospital and the Children's Memorial Foundation. He also serves on the board of trustees of the J.L. Kellogg Graduate School of Management.

***Kenneth T. Derr*** **Age:** 67 **Director Since:** 1995

Mr. Derr is a retired Chairman of the Board and Chief Executive Officer of ChevronTexaco Corporation, an international oil company. He was Chairman and Chief Executive Officer from 1989 to 1999, Vice Chairman from 1985 to 1989 and director from 1981 to 1999. Mr. Derr also serves as a director of the American Petroleum Institute, a member of The Business Council, Council on Foreign Relations and the Board of Overseers of the Hoover Institution; Co-Chairman of the Committee to Encourage Corporate Philanthropy; Director of American Productivity and Quality Center; and Trustee Emeritus of Cornell University. Mr. Derr is a director of Citigroup Inc., Halliburton Company and Calpine Corporation.

***David W. Dorman*** **Age:** 50 **Director Since:** 2002

Mr. Dorman has been the Chairman of the Board and Chief Executive Officer of AT&T since November 2002. He was President of AT&T from 2000 to 2002 and the Chief Executive Officer of Concert, a former global venture created by AT&T and British Telecommunications plc, from 1999 to 2000. Mr. Dorman was Chairman, President and Chief Executive Officer of PointCast Incorporated from 1997 to 1999; Executive Vice President of SBC Communications Inc. in 1997; Chairman, President and Chief Executive Officer of Pacific Bell from 1994 to 1997; and President of Sprint Business from 1990 to 1994. He served as a member of the President's Advisory Committee on High Performance Computing and Communications, Information Technology and the Next Generation Internet. Mr. Dorman is a director of Scientific-Atlanta, Inc.

***M. Kathryn Eickhoff*** **Age:** 64 **Director Since:** 1987

Ms. Eickhoff has been President of Eickhoff Economics, Inc., an economic consulting firm, since 1987. She is a past Associate Director for Economic Policy for the U.S. Office of Management and Budget (1985-1987) and the former Executive Vice President and Treasurer of Townsend- Greenspan & Co., Inc. (1962-1985). Ms. Eickhoff is a director of Tenneco Automotive Inc.

***Herbert L. Henkel*** **Age:** 55 **Director Since:** 2004

Mr. Henkel has been the Chairman of the Board of Ingersoll-Rand Company, a manufacturer of industrial products and components, since 2000 and President and Chief Executive Officer since 1999. He was the President and Chief Operating Officer of Ingersoll-Rand from April 1999 to October 1999. Mr. Henkel was the Chief Operating Officer of Textron Inc. from 1998 to 1999, and Vice President Industrial Products Segment from 1993 to 1998. Mr. Henkel is a director of Pitney Bowes Inc. and C.R. Bard, Inc.

***Frank C. Herringer*** **Age:** 61 **Director Since:** 2002

Mr. Herringer has been Chairman of the Board of Transamerica Corporation, a financial services company, since 1995. He served as Chief Executive Officer from 1991 to 1999 and President from 1986 to 1999. From 1999 to May 2000, Mr. Herringer served on the Executive Board of Aegon N.V. and as Chairman of the Board of Aegon USA, Inc. Mr. Herringer is a director of The Charles Schwab Corporation, Mirapoint Inc. and Unocal Corporation.

***Shirley Ann Jackson, Ph.D.*** **Age:** 57 **Director Since:** 2001

Dr. Jackson is the President of Rensselaer Polytechnic Institute (RPI). Prior to becoming President of RPI in 1999, Dr. Jackson was Chairman of the U.S. Nuclear Regulatory Commission (1995-1999), a Professor of Theoretical Physics at Rutgers University (1991-1995) and a theoretical physicist at the former AT&T Bell Laboratories (1975-1991). Dr. Jackson was elected to the National Academy of Engineering in 2001. She is also a



Fellow of the American Academy of Arts and Sciences and the American Physical Society. She is a Life Member of the M.I.T. Corporation Board of Trustees and the Council on Foreign Relations. She is President of the American Association for the Advancement of Science. Dr. Jackson is a director of FedEx Corporation, Public Service Enterprise Group Incorporated, Marathon Oil Corporation, United States Steel Corporation and Medtronic, Inc. She has also been a member of the Board of Directors of the New York Stock Exchange, Inc. since November 2003.

***Jon C. Madonna*** **Age:** 60 **Director Since:** 2002

Mr. Madonna is a retired Chairman and Chief Executive Officer of KPMG, an international accounting and consulting firm. He was with KPMG for 28 years where he held numerous senior leadership positions throughout his career and served as Chairman from 1990 to1996. Subsequent to his retirement from KPMG, Mr. Madonna served as Vice Chairman of Travelers Group, Inc. from 1997 to 1998 and President and Chief Executive Officer of Carlson Wagonlit Corporate Travel, Inc. from 1999 to 2000. He was Chief Executive Officer of DigitalThink, Inc. from 2001 to 2002, and he has been Chairman of DigitalThink, Inc. since April 2002. Mr. Madonna is a director of Albertson's, Inc., DigitalThink, Inc., Phelps Dodge Corporation and Tidewater Inc.

***Donald F. McHenry*** **Age:** 67 **Director Since:** 1986

Mr. McHenry has been a Distinguished Professor in the Practice of Diplomacy at the School of Foreign Service at Georgetown University, since 1981. He has also been President of IRC Group LLC, international relations consultants, since 1981. Mr. McHenry is a director of FleetBoston Financial Corporation, The Coca-Cola Company, International Paper Company and GlaxoSmithKline plc.

***Tony L. White*** **Age:** 57 **Director Since:** 2002

Mr. White is Chairman of the Board, President and Chief Executive Officer of Applera Corporation, a life sciences company. He was elected Chairman of the Board, President and Chief Executive Officer of Perkin Elmer Corporation (renamed Applera Corporation) in 1995. Prior to that, he was Executive Vice President and a Member of the Office of the Chief Executive Officer at Baxter International Inc. from 1991 to 1995. Mr. White is a director of C.R. Bard, Inc. and Ingersoll-Rand Company.

**THE BOARD'S COMMITTEES AND THEIR FUNCTIONS**

The Board has established a number of committees, including the Audit Committee, the Compensation and Employee Benefits Committee and the Governance and Nominating Committee, each of which is briefly described below. Another committee of the Board is the Proxy Committee whose members are listed on your proxy card. The Proxy Committee votes the shares represented by proxies at the annual meeting of shareowners.

The Audit Committee assists our Board in maintaining the integrity of our financial statements, its financial reporting processes and systems of internal audit controls, our compliance with legal and regulatory requirements and overseeing our code of conduct and ethics policies. The Audit Committee reviews the scope of independent and internal audits and assesses the results. The Audit Committee meets with our management to consider the adequacy of the internal controls and the objectivity of financial reporting. The committee also meets with the independent auditors and with appropriate financial personnel and internal auditors concerning these matters. The committee selects, compensates and appoints our independent auditors. Both the internal auditors and the independent auditors periodically meet alone with the committee and always have unrestricted access to the committee. We do not limit the number of audit committees of publicly listed companies on which members of our Audit Committee may serve. One of our Audit Committee members, Mr. Madonna, serves on three other audit committees. In March 2004 our Board affirmatively determined that such simultaneous service would not impair Mr. Madonna's ability to effectively serve on our Audit Committee. The Audit Committee currently consists of five independent non-employee directors. The committee met ten times in 2003.

The Compensation and Employee Benefits Committee administers incentive compensation plans, including stock option plans, and advises our Board regarding employee benefit plans. The committee establishes the



compensation structure for our senior managers, approves the compensation of our senior executives and makes recommendations to our Board with respect to compensation of the Chief Executive Officer. The Compensation and Employee Benefits Committee currently consists of five independent non-employee directors. The committee met nine times in 2003.

The Governance and Nominating Committee advises and makes recommendations to the Board on all matters concerning directorship and corporate governance practices, including compensation of directors and the selection of candidates as nominees for election as directors, and provides guidance with respect to matters of public policy. The Governance and Nominating Committee currently consists of six independent non-employee directors. The committee met four times in 2003. The committee recommended to the Board the slate of directors for election at the 2004 Annual Meeting of Shareowners.

We are committed to the highest standards of corporate governance and ethical behavior. On the recommendation of the Governance and Nominating Committee, the Board has adopted our Corporate Governance Guidelines which are available on our Investor Relations Website at **www.att.com/ir/cg** and are attached as Appendix B. The Board has also adopted a Financial Officer Code of Ethics which is also available on our Investor Relations Website. All of our directors, officers and employees must act ethically at all times and in accordance with the policies set forth in our code of conduct. Our code includes "Our Common Bond," a set of business values which guide all of our decisions and behavior, and is published on our Investor Relations Website. Our Board did not grant any waivers of any ethics policies in 2003 to our directors or executive officers. The charters of the Audit Committee, Governance and Nominating Committee and Compensation and Employee Benefits Committee are also available on our Investor Relations Website.

The table below provides membership information for each of the Board committees:

| **Name** | **Audit** | **Compensation and Employee Benefits** | **Governance and Nominating** |
|---|---|---|---|
| Mr. Aldinger | | | |
| Mr. Derr | | *Chair* | |
| Ms. Eickhoff | | | |
| Mr. Herringer | | | |
| Dr. Jackson | | | |
| Mr. Madonna | *Chair* | | |
| Mr. McHenry | | | *Chair* |
| Mr. White | | | |

**INDEPENDENCE OF DIRECTORS; FINANCIAL EXPERT**

The Board has determined that each of our non-employee directors is "independent" within the definitions contained in current NYSE rules (see "How does the Board determine which directors are independent?" on page 3.) In addition, the Board has determined that each member of the Audit Committee is "independent" within the definition contained in current Securities and Exchange Commission (SEC) rules. Furthermore, the Board has determined that both Mr. Herringer and Mr. Madonna qualify as "audit committee financial experts" as defined by the SEC.

**COMPENSATION OF DIRECTORS**

In 2003, independent non-employee directors received a retainer at an annual rate of $50,000 for January through September that was increased to an annual rate of $70,000 effective October 2003 and prorated to result in a total annual retainer of $55,000 for 2003. One-half of the annual retainer was received as AT&T common stock



units with a then-current market value of $27,500 and was deferred automatically and credited to a deferred compensation account under our Deferred Compensation Plan for Non-Employee Directors. Pursuant to that same Plan, each director had the option of either deferring the remaining $27,500, either as AT&T common stock units or in a deferred cash account, or receiving it as a cash payment. For the 2004 deferral election, each director did not have to automatically defer half of his or her retainer into AT&T stock units. The chairperson of the Audit Committee received an additional annual retainer of $15,000 (that was increased to $25,000 effective October 2003.) The chairpersons of the Compensation and Employee Benefits Committee and the Governance and Nominating Committee each received an additional annual retainer of $10,000. No fees are paid for attendance at regularly scheduled Board and committee meetings. Directors received a fee of $1,500 for each special Board or committee meeting attended. Each independent non-employee director also received an award of AT&T restricted stock units equal in value to $100,000 on the date of grant: February 23, 2004, for Mr. Henkel, July 16, 2003, for Mr. Aldinger and June 11, 2003, for each other non-employee director. These units will vest upon a director's retirement from the Board.

Directors may elect to defer the receipt of all or part of their cash retainer and other compensation into the AT&T common stock portion or the cash portion of the deferred compensation account. The AT&T common stock portion (the value of which is measured from time to time by the market value of AT&T common stock) is credited quarterly with a number of deferred shares of AT&T common stock equivalent in market value to the amount of the quarterly dividend on the shares also then credited in the accounts. The cash portion of the deferred compensation account earns interest, compounded quarterly, at an annual rate equal to the average interest rate for 10-year United States Treasury Notes for the previous quarter, plus 5%, for amounts deferred prior to January 1, 2001, and plus 2% for amounts deferred on or after January 1, 2001. The restricted stock units awarded to non-employee directors pay dividend equivalents quarterly in cash.

AT&T also provides independent non-employee directors with travel accident insurance when on our business. An independent non-employee director may also enroll in a Directors' Universal Life Insurance Program sponsored by the Company at no cost to the independent non-employee director. The life insurance benefit under the Directors' Universal Life Insurance Program will continue after the independent non-employee director's retirement from the Board.



## STOCK OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table sets forth information concerning the beneficial ownership of AT&T common stock, as of March 1, 2004, for (a) each current director elected to the Board in 2003 and each nominee for election as a director in 2004; (b) each of the executives named in the Summary Compensation Table (the named executives) not listed as a director; and (c) directors and executive officers as a group. No director or executive officer owns any AT&T preferred shares. Except as otherwise noted, the nominee or family members had sole voting and investment power with respect to such securities.

| | Number of Shares | | | |
|---|---|---|---|---|
| **Name** | **Beneficially Owned(1)** | **Other Common Stock Equivalents(2)** | **Total** | **Percent of Class** |
| (a) | | | | |
| William F. Aldinger | 3,000 | 5,836 | 8,836 | * |
| Kenneth T. Derr | 2,773(3) | 23,695 | 26,468 | * |

| Name | Number of Shares: Beneficially Owned(1) | Other Common Stock Equivalents(2) | Total | Percent of Class |
|---|---|---|---|---|
| David W. Dorman | 1,252,927(4) | 206,264 | 1,459,191 | * |
| M. Kathryn Eickhoff | 3,183(5) | 14,586 | 17,769 | * |
| Herbert L. Henkel(6) | 0 | 5,035 | 5,035 | * |
| Frank C. Herringer | 16,885(7) | 11,535 | 28,420 | * |
| Shirley Ann Jackson | 1,450(8) | 14,024 | 15,474 | * |
| Jon C. Madonna | 3,151(9) | 6,678 | 9,829 | * |
| Donald F. McHenry | 2,664(10) | 17,950 | 20,614 | * |
| Tony L. White | 2,851(11) | 11,476 | 14,327 | * |

| Name | Beneficially Owned(1) | Other Common Stock Equivalents(2) | Total | Percent of Class |
|---|---|---|---|---|
| (b) | | | | |
| James W. Cicconi | 467,430(12) | 64,550 | 531,980 | * |
| Hossein Eslambolchi | 367,312(13) | 123,998 | 491,310 | * |
| Thomas W. Horton | 239,779(14) | 60,000 | 299,779 | * |
| John Polumbo | 208,869(15) | 50,000 | 258,869 | * |

| Name | Beneficially Owned(1) | Other Common Stock Equivalents(2) | Total | Percent of Class |
|---|---|---|---|---|
| (c) | | | | |
| Directors and Executive Officers as a group (20 persons) | 3,455,429(16) | 874,803(17) | 4,330,232 | * |

*Less than one percent

**Footnotes**

1. As of March 1, 2004, no individual director or nominee for director or named executive beneficially owned 1% or more of AT&T's outstanding common shares, nor did the directors and executive officers as a group.



2. Includes share units held in deferred compensation accounts that do not constitute beneficially owned securities and restricted stock units. The number of restricted stock units owned by each non-employee director is as follows:

| | |
|---|---|
| William F. Aldinger | 5,168 restricted stock units |
| Kenneth T. Derr | 5,024 restricted stock units |

| | |
|---|---|
| M. Kathryn Eickhoff | 5,024 restricted stock units |
| Herbert L. Henkel | 5,035 restricted stock units |
| Frank C. Herringer | 5,024 restricted stock units |
| Shirley Ann Jackson | 5,024 restricted stock units |
| Jon C. Madonna | 5,024 restricted stock units |
| Donald F. McHenry | 5,024 restricted stock units |
| Tony L. White | 5,024 restricted stock units |

The number of restricted stock units owned by Mr. Dorman and each of our other named executive officers as of March 1, 2004, is the number set forth in the column "Other Common Stock Equivalents." These include restricted stock units which vested on March 15, 2004, as follows:

| | |
|---|---|
| James W. Cicconi | 14,550 restricted stock units |
| David W. Dorman | 56,264 restricted stock units |
| Hossein Eslambolchi | 5,698 restricted stock units |

3. Includes beneficial ownership of 1,683 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

4. Includes beneficial ownership of 1,075,601 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

5. Includes 1,000 shares held in an IRA account and 100 shares held in a Keogh account. Also includes 200 shares held by a trust, as to which Ms. Eickhoff has disclaimed beneficial ownership. In addition, includes beneficial ownership of 1,683 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

6. Effective February 23, 2004, Herbert L. Henkel was elected to our Board.

7. Includes 10,000 shares held by trusts, 4,000 shares held in an IRA account, 1,000 shares held in a Keogh account for his spouse, 200 shares held by trusts for each of his two daughters, 100 shares held by a trust for his niece and five shares held by a trust for his spouse. Also includes 30 shares held in a custodial account as to which Mr. Herringer has disclaimed beneficial ownership. In addition, includes beneficial ownership of 1,350 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

8. Includes 78 shares owned by Dr. Jackson's spouse. Dr. Jackson has disclaimed beneficial ownership of these shares. Also includes beneficial ownership of 1,372 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

9. Includes beneficial ownership of 751 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

10. Includes 381 shares held in a Keogh account. In addition, includes beneficial ownership of 1,683 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

11. Includes beneficial ownership of 1,351 shares that may be acquired within 60 days pursuant to stock options awarded under a non-employee director incentive compensation plan.

12. Includes beneficial ownership of 449,078 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

13. Includes 0.6 shares held in a 401(k) account. Also includes beneficial ownership of 358,785 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

14. Includes beneficial ownership of 234,779 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

15. Includes beneficial ownership of 187,306 shares that may be acquired within 60 days pursuant to stock options awarded under employee incentive compensation plans.

16. Includes beneficial ownership of 3,175,227 shares that may be acquired within 60 days pursuant to stock options awarded under employee and non-employee director incentive compensation plans.

17. Includes 806,645 restricted stock units and 68,158 share units held in deferred compensation accounts. The number of restricted stock units includes 98,561 restricted stock units which vested on March 15, 2004, and 4,213 restricted stock units which were converted to share units held in deferred compensation accounts on March 15, 2004.



## BENEFICIAL OWNERSHIP OF MORE THAN FIVE PERCENT

The following table sets forth information as to the beneficial ownership of AT&T common stock by each person or group known by us, based on filings pursuant to Section 13(d) or (g) under the Securities Exchange Act of 1934 (the Exchange Act), to own beneficially more than 5% of the outstanding shares of AT&T common stock as of March 1, 2004.

| Name and Address of Beneficial Owner | Number of Shares | Percent of Class |
|---|---|---|
| Dodge & Cox<br>One Sansome Street<br>35th Floor<br>San Francisco, CA 94104 | 83,815,221(1) | 10.6% |
| Capital Research and Management Company<br>333 South Hope Street<br>55th Floor<br>Los Angeles, CA 90071 | 82,769,800(2) | 10.5% |

**Footnotes**

1. Based on a Schedule 13G filed January 9, 2004, Dodge & Cox beneficially owned these shares on behalf of clients, that may include investment companies registered under the Investment Company Act and/or employee benefit plans, pension funds, endowment funds or other institutional clients. Dodge & Cox has sole voting power for 79,040,754 shares, shared voting power for 818,180 shares, sole dispositive power for 83,815,221 shares and no shared dispositive power for any of the shares.

2. According to an amended Schedule 13G/A filed on February 13, 2004, by Capital Research and Management Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, Capital Research is deemed to be the beneficial owner, as a result of acting as investment advisor to various companies, and has sole dispositive power with respect to 82,769,800 shares or approximately 10.5% of our outstanding shares of common stock.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10 percent of a registered class of our equity securities, to file with the SEC and the NYSE, initial reports of ownership and reports of changes in beneficial ownership of our equity securities.

To our knowledge, based upon the reports filed and written representations that no other reports were required, during the fiscal year ended December 31, 2003, none of our directors and executive officers failed to file on a timely basis reports required by Section 16(a) with the following exceptions: Betsy J. Bernard, our former President, filed one report containing four late transactions, and Mr. Derr filed a report with respect to one of his quarterly awards of deferred stock units two days late.

## RATIFICATION OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF INDEPENDENT AUDITORS (Proposal 2 on Proxy Card)

The Audit Committee has selected and appointed the firm of PricewaterhouseCoopers LLP as the independent auditors to examine our financial statements for the year 2004. PricewaterhouseCoopers LLP has audited our financial statements for many years. Our Board recommends that our shareowners vote FOR ratification of the appointment. Ratification of the appointment of auditors requires a majority of the votes cast. Any shares not voted, whether by abstention or otherwise, have no impact on the vote.



## DIRECTORS' PROPOSAL TO APPROVE THE AT&T 2004 LONG TERM INCENTIVE PROGRAM (Proposal 3 on Proxy Card)

We have provided long term equity compensation under shareowner approved plans since 1984. Our current equity compensation plan, the AT&T 1997 Long Term Incentive Program (the 1997 Plan), provides for the grant of stock options, stock appreciation rights, restricted stock, performance shares and units and other stock-based compensation. The 1997 Plan will expire on May 31, 2004, and as of March 1, 2004, there were approximately 34,192,000 shares remaining available for future grants under the 1997 Plan. However, we intend to issue no more than 1,000,000 shares for stock options and 2,000,000 shares for awards other than stock options prior to the expiration of the 1997 Plan.

At the 2004 annual meeting, shareowners will be asked to approve the AT&T 2004 Long Term Incentive Program (the 2004 Plan). The 2004 Plan was approved by our Board on March 17, 2004, and will not become effective unless it is approved by our shareowners. Whether or not the 2004 Plan is approved by shareowners, no additional shares can be issued under the 1997 Plan after its expiration on May 31, 2004, although outstanding awards under the 1997 Plan, the AT&T 1987 Long Term Incentive Program (the 1987 Plan) and plans we acquired as a result of past mergers and acquisitions will continue in accordance with their terms. No additional awards can be issued under these acquired plans, but awards granted prior to the mergers and acquisitions remain outstanding. As of March 1, 2004, 117,074,597 stock options and 8,089,688 long term awards other than stock options, remained outstanding under all other prior plans.

*Beginning in 2002, the Compensation and Employee Benefits Committee began assessing our equity compensation strategy. The committee specifically focused on the effectiveness of the current stock option strategy, our yearly share usage for our long term incentive awards as compared to our common stock outstanding (our "run rate"), and the potential dilutive impact of the equity programs, as well as the impact of the depressed stock prices within the telecommunications industry. In 2003, the committee, with the assistance of an independent compensation consultant, identified a number of key components of our equity compensation strategy, including:*

*Introducing an equity incentive strategy designed to be effective in recruiting and retaining key talent*

*Developing a long term equity compensation component that ties the levels of equity compensation to financial performance*

*Providing an equity compensation program that balances operational performance with stock price appreciation*

*Reducing the annualized share usage "run rate" and linking long term awards to individual and company performance*

*Mitigating the potential long term dilution implications of equity compensation*

*Fostering an ownership environment through the implementation of share retention guidelines*

*Overall, the committee and management have determined that a new long term incentive strategy comprised of a blend of performance based awards and restricted stock units will provide the most effective alternative to achieve these objectives. The modified strategy will provide a stronger link to our performance compared to 10-year time-vested stock options. The strategy will also lower the potential share usage levels, directly impacting the annual run rate of shares and mitigating the potential long term dilution implications of 10-year stock options. We believe* *that the proposed 2004 Plan will better enable us to accomplish these goals and provide a closer link to operational performance and total shareowner value, while keeping the levels of compensation competitive with our industry peers.*

The 2004 Plan we are proposing has a number of special terms and limitations that the Board of Directors believes further enhances our pay-for-performance philosophy and ownership culture and that are consistent with the long term interests of shareowners and sound corporate governance practices. These include:

**Migration to an equity strategy with a stronger link to company performance.** The 2004 Plan will facilitate our migration from our historical reliance on stock options to the use of other types of equity, including performance based awards or other stock awards linked to employment service such as restricted stock units. However, the plan will continue to allow for the use of stock options should our strategy need to be



adjusted with industry practices or future expectations. It is anticipated that within the new strategy, approximately 70% of annual awards to executive officers would be performance based.

**Significant reduction in annual stock usage (or "run rate").** As described above in our new strategy, we will target the annual share usage level to approximately 0.9% of our common shares outstanding. The actual annual run rate is expected to be as low as 0.7% percent or as high as 1.1% percent per year, depending on the achievement of specified performance targets and objectives.

**Elimination of evergreen provision.** The 2004 Plan replaces the current 1.75% annual increase in the pool of available shares with a fixed reserve of 36,000,000 shares, or approximately 4.5% of common shares outstanding as of March 1, 2004.

**Minimum vesting provisions.** The 2004 Plan generally provides for a minimum three-year vesting schedule on all awards which are not subject to performance based criteria. No more than 4,000,000 shares of non-performance based restricted stock can vest in less than three years.

**Shares terminated under prior plans will *not* increase plan reserve**. Shares subject to awards under other prior plans that are cancelled, forfeited, or expired will *not* be available for re-grant in the 2004 Plan. This will include approximately 31.2 million shares that were projected to be available for future grants under the 1997 Plan as of March 1, 2004.

**No stock option repricings.** The 2004 Plan expressly prohibits the repricing of stock options (other than in connection with certain capital adjustments as described in Section 4(c) of the 2004 Plan) without the approval of shareowners. This provision applies to both direct repricings lowering the exercise price of an outstanding stock option and indirect repricings canceling an outstanding stock option and granting a replacement stock option with a lower exercise price, a replacement grant of restricted stock, or a cash payment for the option.

**No discounted stock options.** The 2004 Plan prohibits the use of discounted stock options (except in certain merger or acquisition transactions).

**No reload options or company loans**. The 2004 Plan prohibits the use of reload options or company loans to exercise stock options.

**Limit on non-employee director awards**. The 2004 Plan incorporates a maximum share value of $150,000 that can be awarded annually to non-employee directors under the 2004 Plan.

**Plan administered by independent committee.** The 2004 Plan will be managed by our Compensation and Employee Benefits Committee, which is comprised solely of independent, non-employee directors, and has engaged an independent executive compensation consultant to advise the committee on compensation.

The 2004 Plan is being submitted for approval by shareowners, as we have done with our AT&T 1984 Long Term Incentive Program, our 1987 Plan and our 1997 Plan, in accordance with the NYSE listing requirements and New York law. The plans acquired in past mergers and acquisitions had generally also been approved by shareowners of the other companies, with two exceptions (see footnote 1 under the "Equity Compensation Plan Information" on page 20). The 2004 Plan is also being submitted, among other reasons, to ensure that certain awards granted under the 2004 Plan may qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code.

**SUMMARY OF THE 2004 PLAN**

The principal features of the 2004 Plan are summarized below. Appendix A to this proxy statement contains a copy of the 2004 Plan as proposed to be adopted. The following summary of the principal features of the 2004 Plan is qualified in its entirety by reference to Appendix A to this proxy statement.



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**Plan Administration.** The 2004 Plan shall be administered by our Compensation and Employee Benefits Committee. The members of the committee consist of outside directors who qualify as "non-employee directors" within the meaning of Rule 16b-3 of the Exchange Act, and as "outside directors" for purposes of section 162(m) of the Internal Revenue Code. The committee may delegate to one or more officers, or an awards committee consisting of one or more of our officers, the power to grant and administer awards under the 2004 Plan to participants who are not executive officers or non-employee directors.

**Shares Subject to the 2004 Plan.** The 2004 Plan authorizes the issuance of up to 36,000,000 shares of our common stock. Any shares issued under the 2004 Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares, or shares purchased in the open market or otherwise. Any shares subject to an award under the 2004 Plan that are forfeited or settled for cash, or expire or otherwise are terminated without issuance of such shares, the shares subject to such award shall to the extent of such cash settlement, forfeiture or termination be available for awards under the 2004 Plan. In the event that any option or other award granted under the 2004 Plan is exercised through the delivery of shares or in the event that withholding tax liabilities arising from such option or other award are satisfied by the withholding of shares by us, the number of shares available for awards under the 2004 Plan shall be increased by the number of shares so surrendered or withheld. In addition, substitute awards shall not reduce the shares available for grant under the 2004 Plan or to a participant in any calendar year.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the shares, such adjustments and other substitutions shall be made to the 2004 Plan and to awards as the committee in its sole discretion deems equitable or appropriate and the number of shares subject to any award shall always be a whole number.

**Individual Award Limits.** Under the 2004 Plan, commencing with calendar year 2004, (i) no participant may be granted in any 12-month period an aggregate amount of stock options and/or stock appreciation rights with respect to more than two and one-half million shares, and (ii) no participant may be granted in any 12-month period an aggregate amount of restricted stock, performance awards or other stock unit awards, with respect to more than one and one-half million shares (or cash amounts based on the value of more than one and one-half million shares); except that an external hire may be granted up to an aggregate amount of performance awards or other stock unit awards with respect to no more than two and one-half million shares (or cash amounts based on the value of no more than two and one-half million shares).

**Eligibility.** Any employee or non-employee director shall be eligible to be selected as a participant, provided, however, no non-employee director shall receive awards with an aggregate fair market value in excess of $150,000 in any calendar year. Incentive stock options may be granted only to employees of AT&T or its subsidiaries. As of December 31, 2003, there were approximately 61,600 employees eligible for grants under the 2004 Plan. The committee, in its discretion, selects the employees to whom awards may be granted, the time or times at which such awards are granted, and the terms of such awards.

**Awards.** The 2004 Plan provides for the grant of stock options, (including incentive stock options that qualify under Section 422 of the Internal Revenue Code and non-statutory options), stock appreciation rights, restricted stock awards, performance awards, other stock unit awards, as such terms are defined in the 2004 Plan.

**Stock Options.** Stock options may be granted under the 2004 Plan to participants either alone or in addition to other awards granted under the 2004 Plan and may be an incentive stock option or a non-qualified stock option grant. Any option granted under the 2004 Plan shall be evidenced by an award agreement in such form as the committee may from time to time approve. Any such stock option shall be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the 2004 Plan, as the committee shall deem desirable:

The purchase price per share under a stock option shall be determined by the committee in its sole discretion; however, such purchase price shall not be less than the fair market value of the share on the date of the grant of the stock option. Substitute awards or awards granted in connection with an adjustment provided for in Section 4(c) of the 2004 Plan shall have a purchase price per share that is intended to preserve the economic value of the award which was replaced or adjusted.



The term of each option shall be fixed by the committee in its sole discretion; however no stock option shall be exercisable after the expiration of ten years from the date the stock option is granted. Stock options shall be exercisable at such time or times as determined by the committee at or subsequent to grant, provided that no stock option will vest in full prior to three years from the grant date.

Subject to the other provisions of the 2004 Plan, any stock option may be exercised by the participant in whole or in part at such time or times, and the participant may make payment of the stock option price in such form or forms, including, without limitation, payment by delivery of cash, shares or other consideration (including, where permitted by law and the committee, awards) having a fair market value on the exercise date equal to the total stock option price, or by any combination of cash, shares and other consideration as the committee may