

**THE SIDLEY BEST PRACTICES CALENDAR**  
**FOR**  
**CORPORATE BOARDS AND COMMITTEES**

October 2004

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AND AFFILIATED PARTNERSHIPS

## **INTRODUCTORY NOTE**

This calendar represents one version of how the Board of a publicly traded, U.S.-domiciled corporation may wish to organize its activities during a calendar year. Although this calendar is designed to address both specific requirements and broad principles of good governance applicable to most corporations, it must be tailored to each individual corporation. For example, a corporation having a controlling shareholder is exempted from certain of the NYSE and Nasdaq requirements, but should have procedures in place for addressing conflicts of interest. Alternatively, a corporation addressing out-of-the-ordinary course of business issues (e.g., a possible change-in-control transaction, an unplanned CEO succession or liquidity concerns) will be scheduling more frequent meetings. Finally, a corporation having relatively simple businesses and facing no special issues may be able to streamline its Board organization from that shown.

In preparing this calendar, consideration has been given to an appropriate sequencing of events. For example, the strategic review is set for September, two months in advance of the November budget presentations. As another example, a discussion of disclosure philosophy in October is designed to set the stage for year-end reporting.

This calendar was prepared based upon adopted requirements as of October 2004. Changes in those requirements may necessitate timing or other modifications.

## REGULARLY SCHEDULED MEETINGS

|                     | <u>Full Board</u> | <u>Audit<br/>Committee</u> | <u>Compensation<br/>Committee</u> | <u>Governance<br/>Committee</u> |
|---------------------|-------------------|----------------------------|-----------------------------------|---------------------------------|
| January (two days)  | X                 | X                          | X                                 | X                               |
| February            |                   |                            |                                   |                                 |
| March               | X                 | X                          |                                   |                                 |
| April               |                   | X (telephonic)             |                                   |                                 |
| May                 | X                 |                            |                                   |                                 |
| June                |                   |                            |                                   |                                 |
| July                | X                 | X                          |                                   |                                 |
| August              |                   |                            |                                   |                                 |
| September (retreat) | X                 |                            |                                   | X                               |
| October             |                   | X (telephonic)             |                                   |                                 |
| November            | X                 |                            | X                                 |                                 |
| December            |                   |                            |                                   |                                 |

Agenda items for each of these meetings follow. Citations appearing in parentheses on the following pages are to sources of specific requirements. (“SOA” refers to Sarbanes-Oxley Act; “S-K” refers to SEC Regulation S-K, “S-X” refers to SEC Regulation S-X, “NYSE” refers to the New York Stock Exchange and NYSE rule references are to the rules contained in Section 303A of the New York Stock Exchange Listed Company Manual; Nasdaq has requirements that are similar, in many instances, to the NYSE.) Although only the January and September meetings are indicated as multi-day affairs, in some instances the Committee meetings should take place the afternoon before the meeting of the full Board. As indicated above, there are no regularly scheduled meetings in February, June, August or December. Written materials should be supplied reasonably in advance of the meetings. Because of the legal significance that may be ascribed to any information supplied to a Board or Committee, consideration should be given to a prior review of those materials by counsel. Audit Committee meetings should be scheduled sufficiently in advance of scheduled earnings releases so as not to preempt the Committee from giving meaningful input or requiring changes.

Following the listing of November agenda items appears a list of possible additional items for regular or special meetings.

**JANUARY**  
**(TWO DAYS)**

**Audit Committee**

- Review of financial results, with detailed review of revenue recognition, significant reserves and any special changes
- Review of draft earnings release for prior 4Q and full year, key messages for analysts conference call and MD&A and earnings guidance (NYSE No. 7(c)(iii)(B) and (C))
- Review and approve plans for independent audit, non-audit services (SOA §§ 201, 202 and S-X Rules 2-01(c)(4) and 2-01(c)(7)) and internal audit; determine whether Committee wants to delegate authority to subcommittees to approve unplanned non-audit services (SOA §§ 202)
- Review management representation letter to auditors
- Review SOA § 204 report, including any management letter or schedule of unadjusted differences (S-X Rule 2-07 and also NYSE No. 7(c)(iii)(A))
- Review SOA § 301 and Exchange Act Rule 10A-3(b)(3) complaint procedures
- Approve SOA § 406 and S-K Item 406 Code of Ethics for senior financial officers, for recommendation to full Board
- Select independent auditor for current year (SOA § 301, Exchange Act Rule 10A-3(b)(2) and NYSE No. 7(c)(iii)); review lead and concurring audit partners and other audit partners who provide services to the corporation to determine whether any rotation is necessary (SOA § 203 and S-X Rule 2-01(c)(6))
- Set policies for hiring personnel from independent audit firm (SOA § 206, S-X Item 2-01(c)(2) and NYSE No. 7(c)(iii)(G))
- Review of draft Audit Committee section of proxy statement (NYSE No. 7(c)(i)(B))
- Executive session

### **Compensation Committee**

Approve option grants and bonus awards (based upon plan designs approved at prior meetings and draft financial results being presented to Audit Committee) (IRC § 162(m))

Approvals and actions relating to employee benefit plans (ERISA § 404)

Review of draft Compensation Committee section of proxy statement (NYSE No. 5(b)(i)(C))

### **Governance Committee**

Review of completed questionnaires relating to Board self-evaluations

Approve Committee charters (previously reviewed by Committee chairs), for recommendation to full Board

Approve standing resolutions on delegation of authority and information flow, for recommendation to full Board (see attachment to this calendar)

Approve Code of Business Conduct and Ethics, for recommendation to full Board (NYSE No. 10)

Approve corporate governance principles, for recommendation to full Board (NYSE No. 9)

Approve specific Board and Committee compensation, for recommendation to full Board

Approve director nominees for recommendation to full board

## **Full Board**

Standard reports — at each meeting (if not monthly), these reports will include operating results, business unit presentations, financial condition, key drivers, contingencies, investor relations

Receive reports of Audit, Compensation and Governance Committees and act upon any recommendations relating to —

- Code of Ethics for senior financial officers (SOA § 406 and SK Item 406)
- option grants and bonuses (report, not action)
- Committee charters
- standing resolutions on delegation of authority and information flow
- director nominees
- Code of Business Conduct and Ethics (NYSE No. 10)
- corporate governance principles (NYSE No. 9)
- specific Board and Committee compensation

Review of corporate compliance program, including insider trading policies (which must comport with, among other things, SOA §§ 306, 402, 802, 806) and conflicts policies (which must comport with SOA § 402); acknowledgment by general counsel of obligations under SOA § 307 and 17 CFR 205; consideration of establishment of qualified legal compliance committee (“QLCC”) under 17 CFR 205 (Also, NYSE No. 10 and Sentencing Guidelines)

Review of completed questionnaires relating to director independence (NYSE Nos. 1, 2, 6, Exchange Act Rule 10A-3 and SOA § 301) and qualification of Audit Committee members (SOA § 407, S-K Item 401(e) and NYSE No. 6)

Review of completed D&O conflict of interest questionnaires

Annual review of D&O insurance coverage, indemnification provisions and policies relating to advancement of expenses; also developments in law regarding exculpatory charter provisions

Annual review of corporate communications strategy

Executive session (NYSE No. 3)

## **MARCH**

### **Audit Committee**

Review audited financials and MD&A with management and independent auditors and recommend to the full Board that the audited financials be included in the Form 10-K (S-K Item 306 and NYSE No. 7(c)(iii)(B))

Review report on the Company's critical accounting policies, alternatives to such policies, ramifications of such policies and the treatment preferred by the independent auditors, as well as any material written communications between the firm and management (SOA § 204 and S-X Rule 2-07) (The Committee should also make sure it reviews with management and the independent auditors the matters set forth in clauses (A)-(C) of the General Commentary to NYSE No. 7(c).)

Review SOA § 404 internal control report and discuss with management and independent auditors

Review with the independent auditors any audit problems or difficulties and management's response (NYSE No. 7(c)(iii)(F))

In connection with, or in addition to, the matters listed above, meet separately with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors, in each case with a view to identifying issues warranting committee attention (NYSE No. 7(c)(iii)(E))

## **Full Board**

Standard reports

Receive report of Audit Committee

Review of draft Form 10-K, draft proxy statement and procedures supporting CEO/CFO certifications regarding 1934 Act reports and internal controls (SOA §§ 302, 404, 906) and CEO certification of compliance with NYSE listing standards (NYSE No. 12)

Review of system for gathering, analyzing and internally communicating data for purposes of operating the business (*Caremark*) and complying with disclosure requirements (SEC rule 13a-14), including possible report on the operations of any Disclosure Committee

Annual review of takeover environment and defenses, as well as all contracts (employment and other) containing change-in-control triggers

Executive session, including CEO and CFO evaluations and succession plans (routine and emergency)



## **APRIL**

### **Audit Committee**

Review of draft earnings release for 1Q, key messages for analysts conference call and earnings guidance (NYSE No. 7(c)(iii)(C))

Review of draft 1Q Form 10-Q (including MD&A) (NYSE No. 7(c)(iii)(B))

Executive session

## MAY

### **Full Board (following Annual Shareholders Meeting)**

Standard reports

Elect officers

Appoint Committees

Receive report of Audit Committee

Executive session (NYSE No. 3)

### **New Directors**

Orientation Session (NYSE No. 9)

## JULY

### Audit Committee

Review of draft earnings release for 2Q, key messages for analysts conference call and earnings guidance (NYSE No. 7(c)(iii)(C))

Review draft of 2Q Form 10-Q (including MD&A) (NYSE No. 7(c)(iii)(B))

Review of risk assessment and management programs — insurance, derivatives, information systems, stress testing\*, etc. (NYSE No. 7(c)(iii)(D))

Annual Committee self-evaluation (NYSE No. 7(c)(ii))

Executive session

### Full Board

Standard reports

Mid-year rejections

Receive report of Audit Committee

Planning for September retreat

Executive session (NYSE No. 3)

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\* “Stress testing” refers to understanding the impact, if any, on the Corporation’s results of operations or financial condition of changes of a certain magnitude in interest rates, foreign exchange rates, commodity prices, stock prices, credit ratings, etc.

## **SEPTEMBER (RETREAT)**

### **Governance Committee**

Review of forms of questionnaires relating to Board self-evaluation, director independence and Audit Committee qualifications

Approval of Board and Committee calendar for coming year, for recommendation to full Board

Annual Committee self-evaluation (NYSE No. 4(b)(ii))

### **Full Board**

Standard reports

Comprehensive reviews: corporate strategy; management structure, talent development and succession; competitive analysis; culture

Receive Audit Committee report on risk management review

Receive Governance Committee report and act on recommendation about Board and Committee calendar for coming year; delivery of questionnaires (described above) for completion and return by November meeting

Review plans for continuing education for directors (NYSE No. 9)

Executive session (NYSE No. 3)

## **OCTOBER**

### **Audit Committee**

Review of draft earnings release for 3Q, key messages for analysts conference call and earnings guidance (NYSE No. 7(c)(iii)(C))

Review of draft 3Q Form 10-Q (including MD&A) (NYSE No. 7(c)(iii)(B))

Review with CEO, CFO, CAO reporting and disclosure philosophy and internal communications designed to set “tone at the top” for preparation of Form 10-K and year-end financials

## **NOVEMBER**

### **Compensation Committee**

Approve compensation (including options) and bonus plan designs for coming year, for recommendation to full Board

Annual Committee self-evaluation (NYSE No. 5(b)(ii))

### **Full Board**

Standard reports

Approve operating and capital budgets and financing program for coming year

Receive report of Audit Committee

Receive report of Compensation Committee and approve compensation and bonus plan designs for coming year

Executive session (NYSE No. 3)

**POSSIBLE ADDITIONAL AGENDA ITEMS  
FOR REGULAR MEETINGS  
OR BASIS FOR CALLING SPECIAL MEETINGS**

**Audit Committee**

Receipt of SEC accounting comments or press/analyst reports reflecting on accounting

Proposals for related-party transaction

**Compensation Committee**

Compensation of newly-hired senior executives

Adoption of any golden parachute or other employment agreement

Adoption of equity-compensation plans, subject to shareholder vote under NYSE No. 8

**Governance Committee**

Any change in independence status of any individual director

**Full Board**

Receipt of indication of interest/takeover bid

## ATTACHMENT

### **POSSIBLE SUBJECTS FOR STANDING RESOLUTIONS ON DELEGATION OF AUTHORITY AND INFORMATION FLOW**

#### **TRANSACTIONS, ETC., REQUIRING BOARD APPROVAL**

Any statutorily-mandated items, such as a charter amendments, issuances of shares, share repurchases, dividends, etc.

Any financing transaction in excess of \$[\_\_ million] or, regardless of size, necessitating a legal opinion or certified resolutions

Any acquisition involving consideration (payment for equity plus assumed debt) in excess of \$[\_\_ million]

Any disposition for a sales price, or involving assets with a book value, in excess of \$[\_\_ million]

Any reduction-in-force or layoff involving more than [\_\_] employees

Any contract (including any lease) out-of-the-ordinary course and involving payments or receipts in excess of \$[\_\_ million] in any year or \$[\_\_ million] over the term thereof; any material amendments of any such contract

Any out-of-the-ordinary course transaction or contract with any principal stockholder, director or officer (or any affiliate or relative thereof)

The commencement of litigation by the Company involving (i) estimated legal fees in excess of \$[\_\_ million] in any year or \$[\_\_ million] over the course thereof or (ii) a potential counterclaim in excess of \$[\_\_ million]

Any capital expenditure included in an approved capital budget and costing in excess of \$[\_\_ million]

Any capital expenditure not included in an approved capital budget and costing in excess of \$[\_\_ million]

Hiring-and-firing decisions at the [\_\_\_\_\_] level and above



## **MATTERS ABOUT WHICH THE BOARD MUST BE NOTIFIED**

*(Immediate notification versus notification at next regular meeting to be determined by CEO in consultation with counsel)*

Any event of defalcation (i) by any employee involving amounts in excess of \$[\_\_\_\_\_] or (ii) by any officer, regardless of amount

Any claim of sexual harassment against an officer

Any waiver of the Code of Business Conduct and Ethics

Resignation by any officer or director

Any “insider trading” by any employee

Any out-of-the-ordinary-course opening or closing of a “trading window”

Any out-of-the-ordinary-course contact from a regulatory body or the stock exchange

Any material issue raised by outside auditors with respect to previously issued financial statements

Any approach by a potential acquirer of the Company or any material business thereof

The commencement of litigation against the Company seeking amounts in excess of \$[\_\_\_\_\_]