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# ***Looking Ahead: Executive Pay in 2010***

***December 15, 2009***

## Today's Speakers



**Peter R. Gleason** is Managing Director and Chief Financial Officer of the National Association of Corporate Directors.

**Jim Heim**, Managing Director in Pearl Meyer & Partners' Boston office, specializes in executive and board compensation, compensation strategy, compensation-related corporate governance, incentive and equity plan design, and competitive analyses.

**Greg Stoeckel**, Managing Director in Pearl Meyer & Partners' Atlanta office, has consulted for nearly 15 years on executive compensation programs, with a focus on peer group development, pay and performance alignment, new share requests, and proxy disclosure issues.

# Agenda



- Overview of Executive Pay Landscape
  - Another challenging year for decision making
  - Key variables impacting 2010 executive pay decisions
  - Potential disconnects and discrepancies
- Survey: *Looking Ahead to Executive Pay Practices in 2010*
  - Methodologies & research
  - Overall findings
    - Company performance & impact on decisions
    - Base salaries
    - Annual incentives
    - Long-term incentives
    - Perquisites
    - Severance/CIC
- Closing Remarks

# Another Challenging Year for Decision-Making “From Uncertainty to..... Uncertainty”



## That was then.....

- Financial sector meltdown
- Housing collapse
- High profile corporate failures
- High profile investment fraud
- Rapidly declining economic conditions
- Disastrous Q4 2008
- Severe stock price declines
- New leadership in Washington
- Massive stimulus spending
- TARP legislation
- Poor visibility into 2009
- Rising shareholder activism



## This is now .....

- Continued economic weakness, tight credit, and high unemployment
- Potentially significant healthcare and tax reforms creating more uncertainty
- Banking reforms and limitations “leaking” into broader policies/mandates
- Pending legislation in the House and Senate designed to curb executive pay
- Proposed SEC disclosure changes regarding executive pay
- New policy updates from RiskMetrics and other proxy advisory firms
- Continuing push from institutional shareholders for a “say on pay”
- Growing discontent with executive pay in the “court of public opinion”

# Nonetheless, Directors Need to Make Decisions

## Key Variables Impacting 2010 Executive Pay Decisions



- Economic Uncertainty** →
  - Controlling fixed costs
  - Selecting measures and setting goals
  
- RMG Policy Updates** →
  - Reducing / eliminating “egregious” practices
  - Carefully managing share usage
  
- Pending SEC Disclosures** →
  - Incorporating a risk perspective in design & disclosure
  - Assuring committee and consultant independence
  
- Competitive Practices** →
  - Maintain competitive positioning (target pay)
  - Maintain relative pay and performance linkage (actual pay)

## But All Signs Don't Point in the Same Direction Potential Disconnects and Discrepancies



- Pay for performance.... but limit risk
- Attract and retain the best.... but limit pay
- Reduce the impact of benchmarking....but disclose more
- Create greater shareholder alignment...but use fewer shares
- Focus on long-term value... but meet short-term expectations
- Align executive and shareholder interests...but reduce CIC protection
- Manage relative to conditions...but reward only absolute improvements



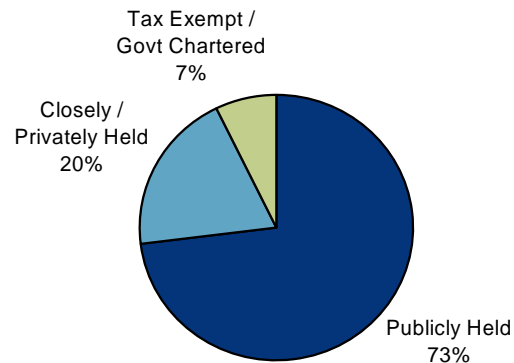
# Our Survey



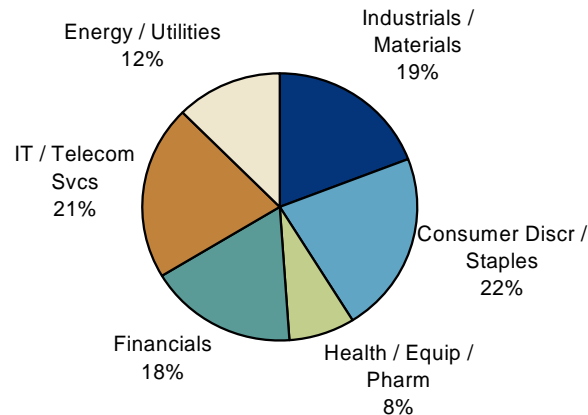
## “PM&P on Compensation Planning: Looking Ahead to Executive Pay Practices in 2010”

- **Focused on forward-looking expectations, not prior year practices**
- Conducted in September 2009
- 395 respondents
- Majority of respondents are publicly-traded
- Wide representation by company size and industry

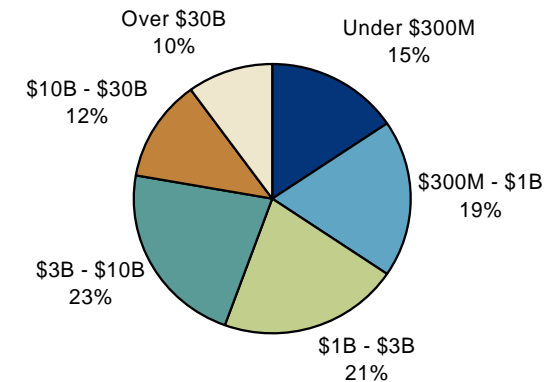
### Participants by Ownership Structure



### Publicly Held Participants by Industry



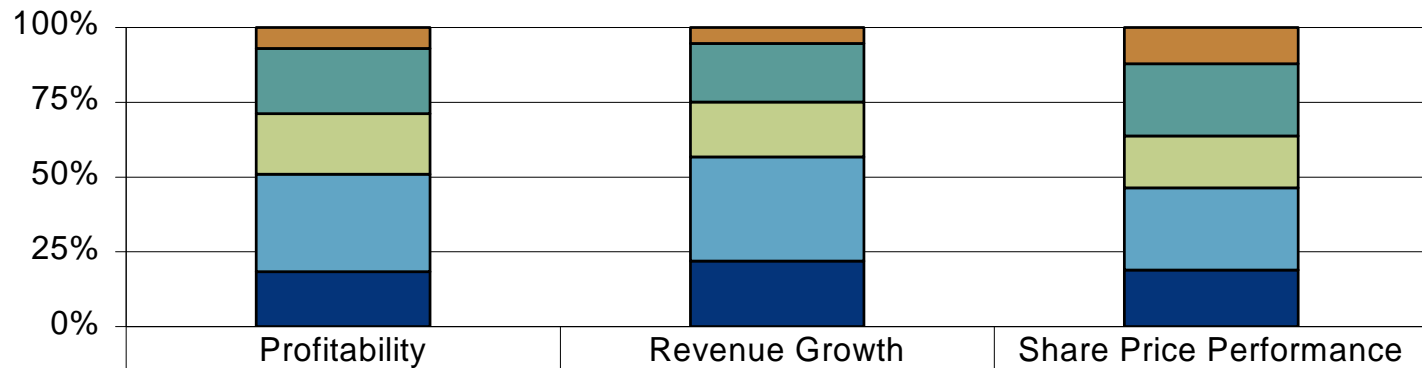
### Participants by Revenue, Assets or Budget



# Expected Year-over-Year Performance



## FY09 Expected Performance vs. FY08

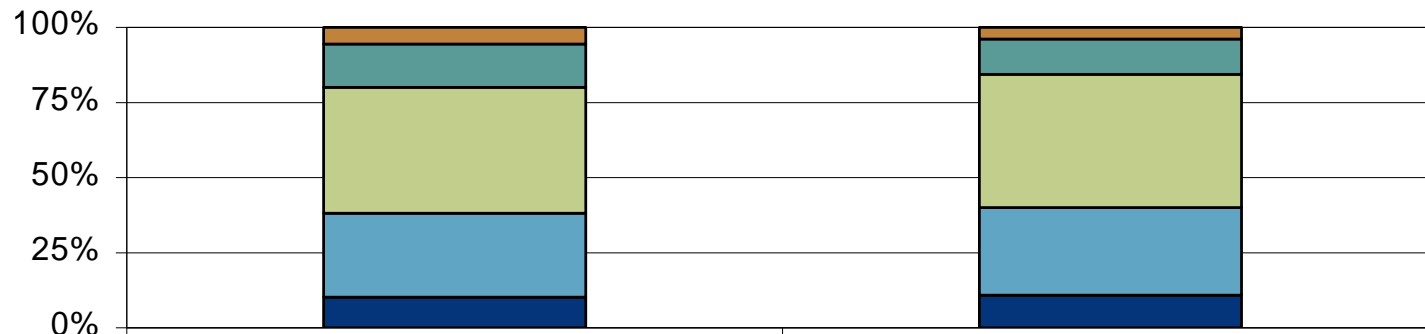


Well above	7%	5%	12%
Somewhat above	22%	20%	24%
In line with	20%	18%	17%
Somewhat lower than	33%	35%	28%
Much lower than	18%	22%	19%

# Performance vs. Internal Goals



## FY09 Expected Performance vs. Internal Budget

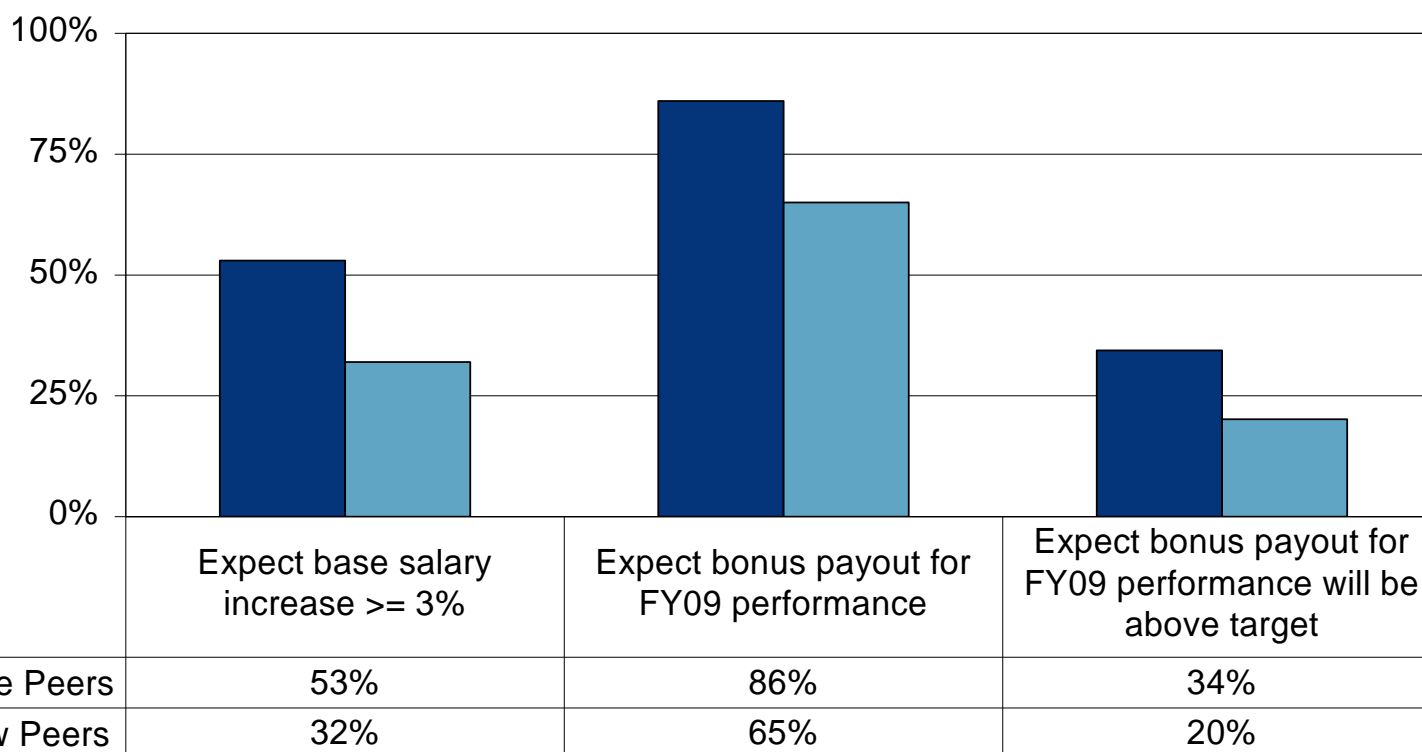


	Profitability	Revenue Growth
Well above	6%	4%
Somewhat above	14%	12%
In line with	42%	44%
Somewhat lower than	28%	29%
Much lower than	10%	11%

# Pay Decisions of Strong vs. Weak Performers



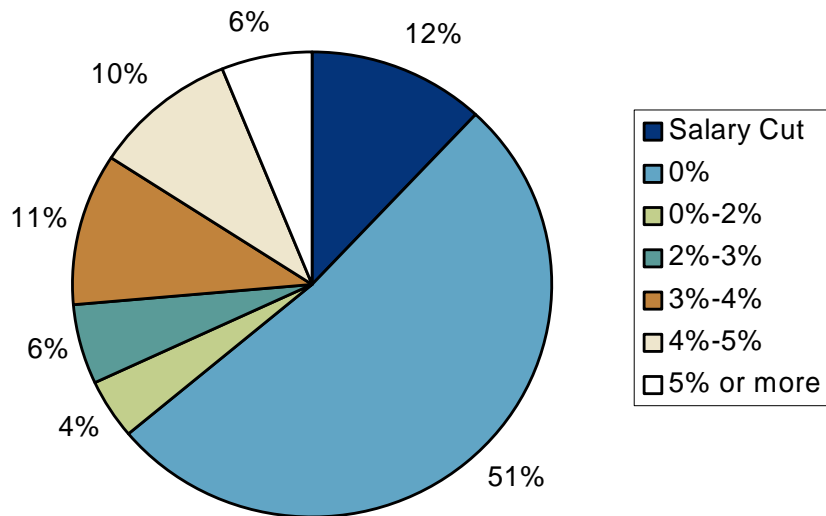
## Respondents Expecting FY09 Performance "Above Peers" vs. Those Expecting Performance "Below Peers"



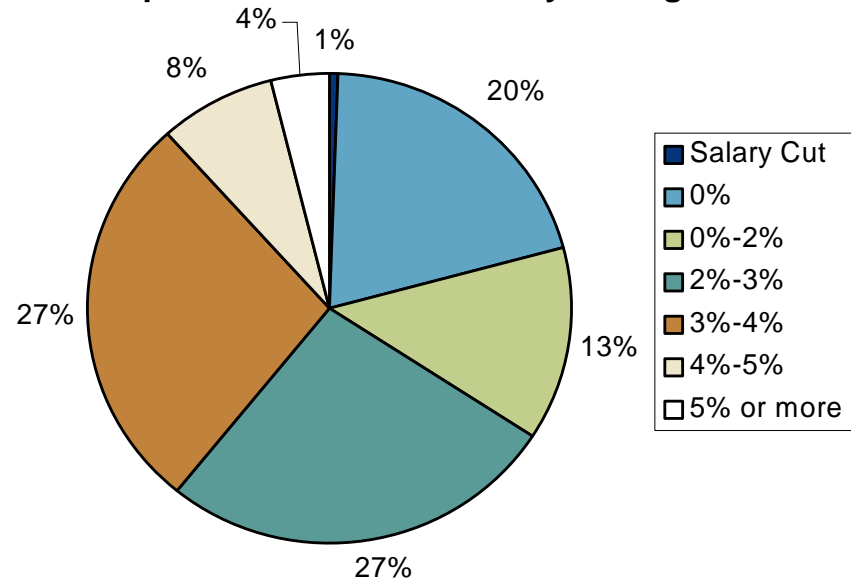
# Base Salaries



**FY09 Base Salary Changes**



**Expected FY10 Base Salary Changes**

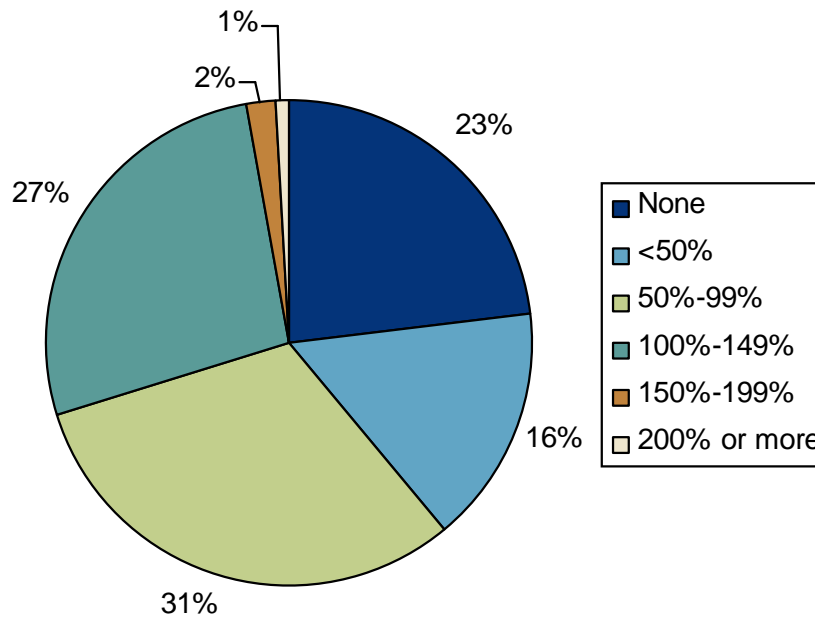


- Even those expecting strong performance plan modest base salary increases.
- Companies hesitant to increase fixed costs given volatile market conditions.
- Retention concerns are addressed in other ways.

# Annual Incentives: Anticipated Payouts



**Expected FY09 Annual Incentive Payout as Percent of Target**

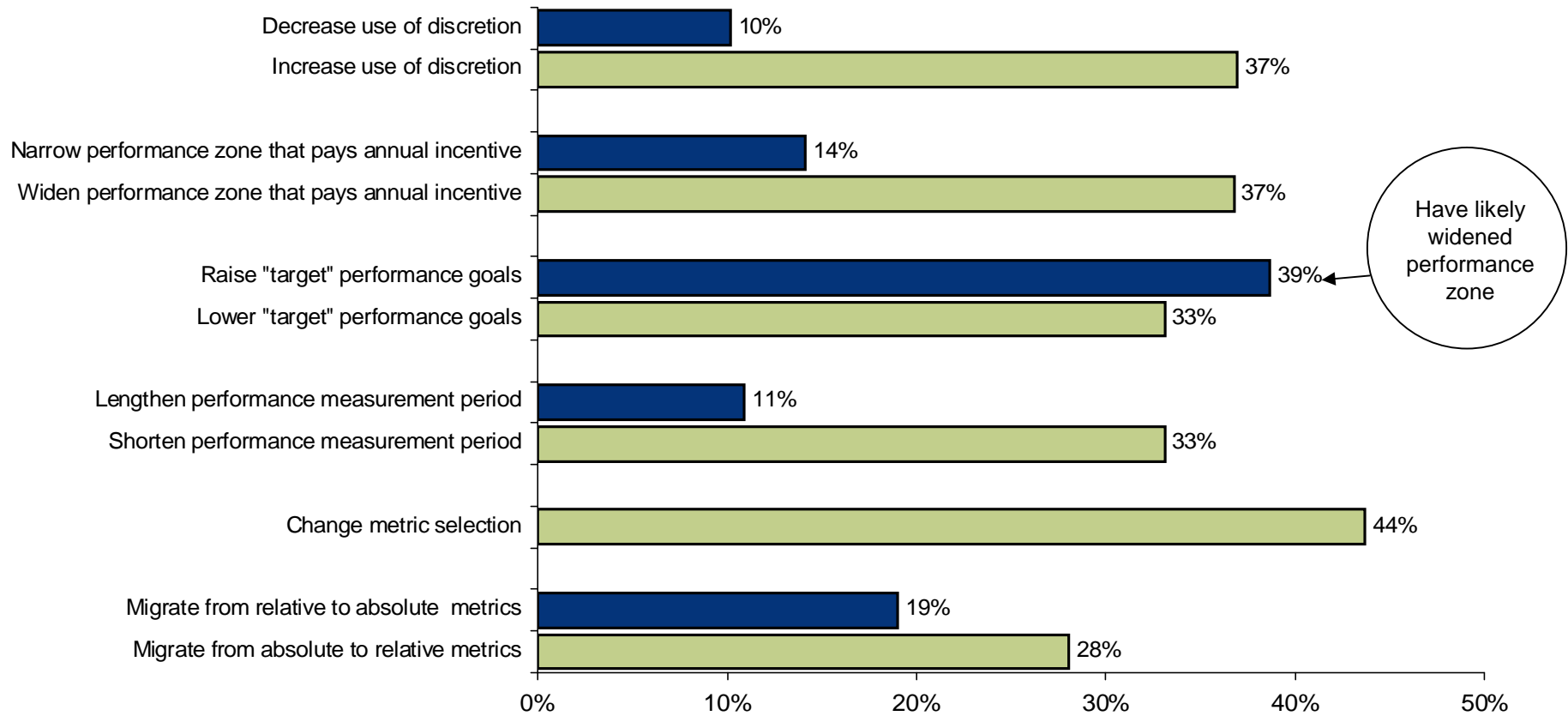


- More than one out of five paid no annual incentives for FY08 performance.
- Even among “strong performers”, only 34% expect to pay out above target for FY09 performance.
- Results run counter to criticism that companies have “sandbagged” performance targets.

# Annual Incentives: Modifications to Design



## Actions Contemplated in FY09 or FY10

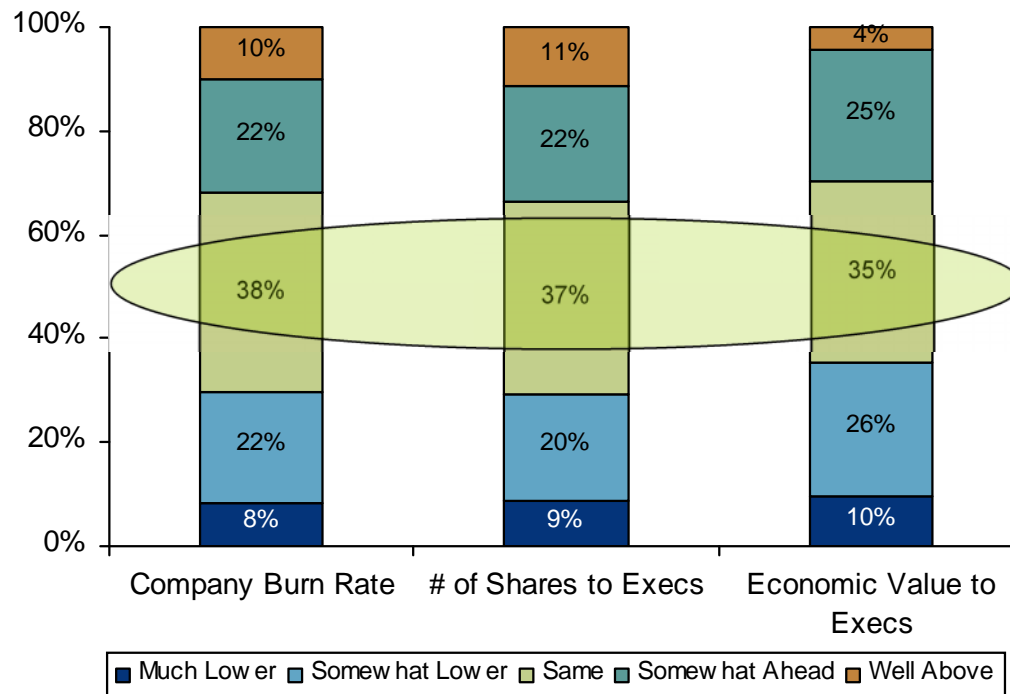


Olive bars represent actions that might be expected in a down economy.

# Long-term Incentives: Grant Levels



Expectations for FY09 LTI

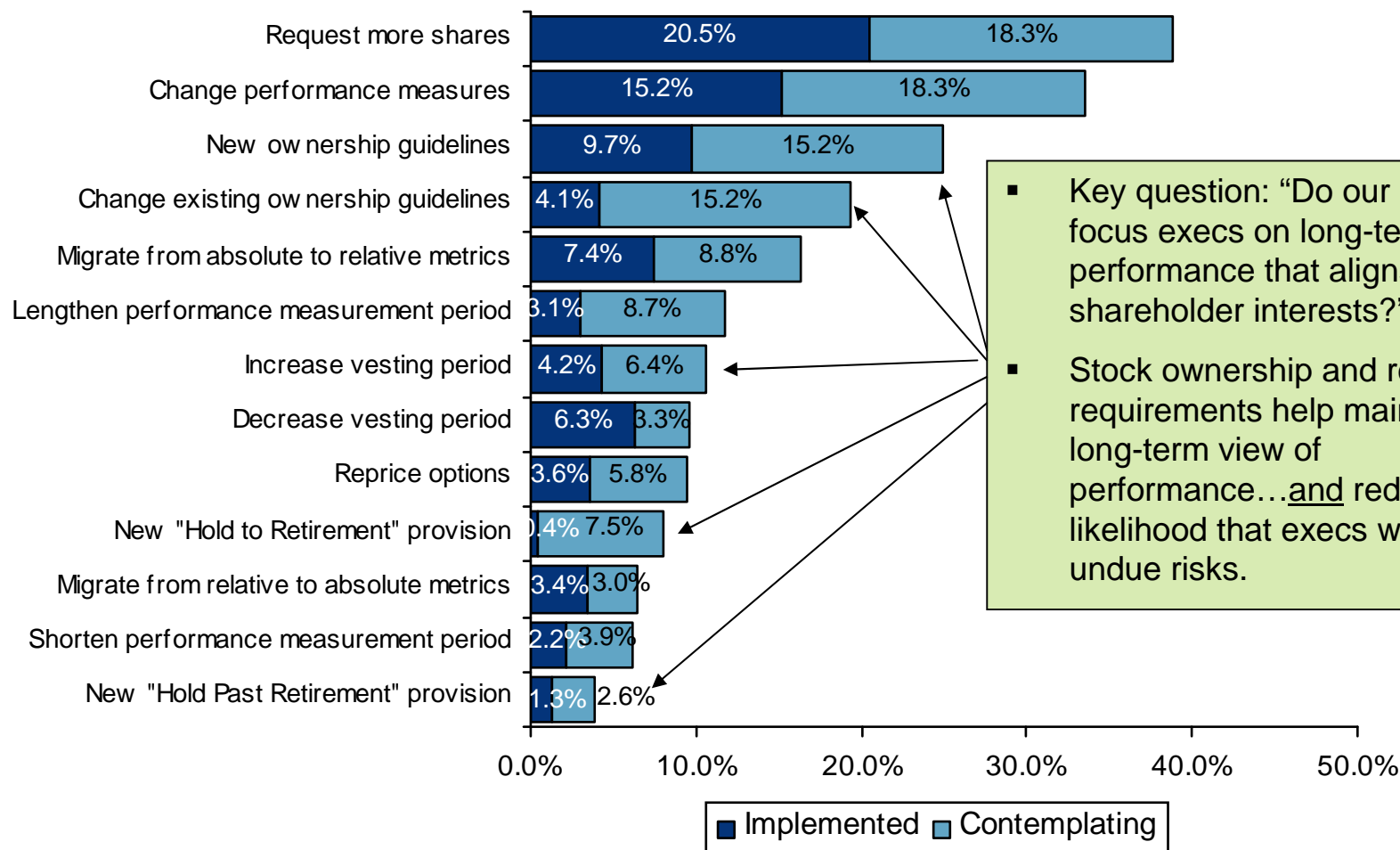


- Slightly more expect number of shares granted to execs will increase (34%) than decrease (29%) year-over-year.
- BUT...these grants are being made at lower share prices. 36% anticipate a decrease in the value of awards made to execs, vs. 30% who anticipate an increase.

# Long-term Incentives: Modifications to Design



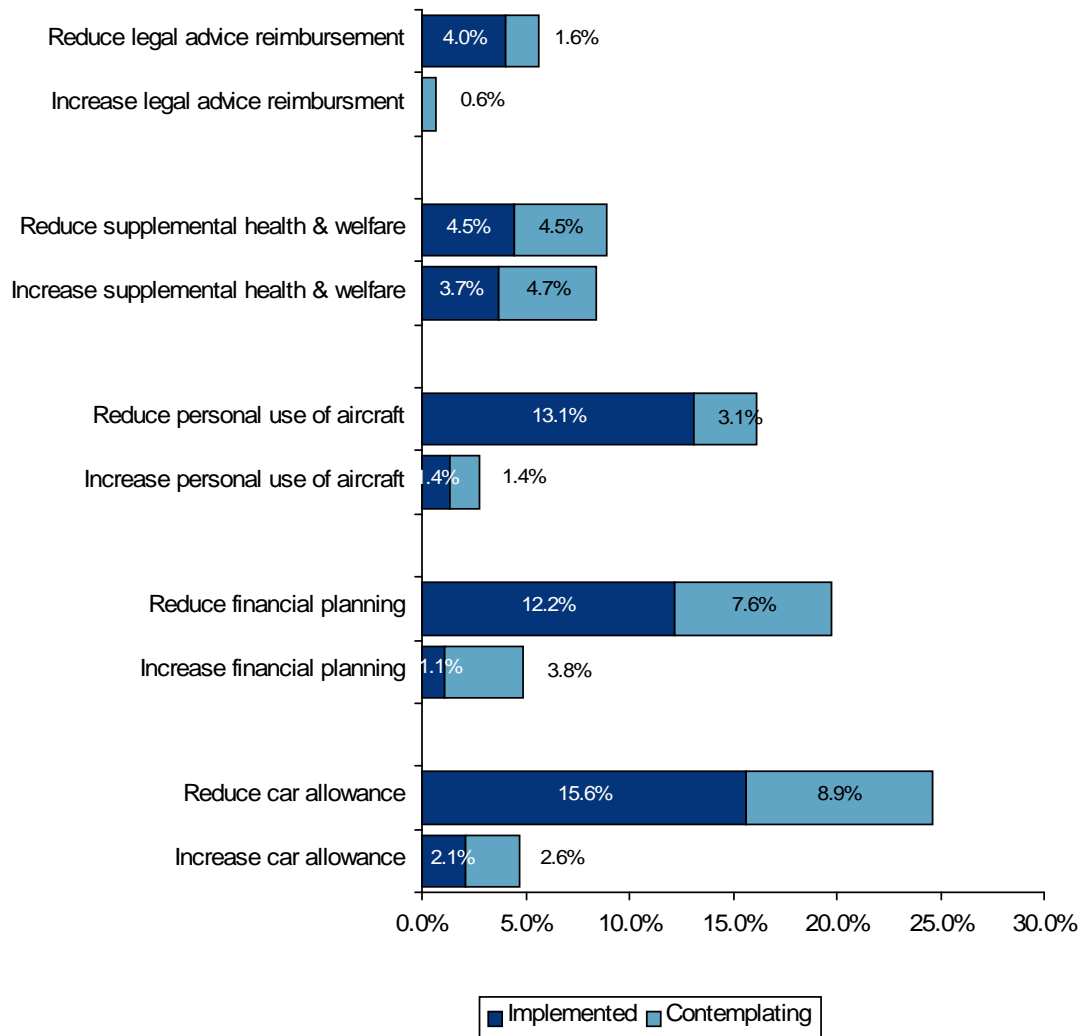
## Implemented and Contemplated Changes to LTI Programs



# Perquisites



## Implemented and Contemplated Changes to Perquisites

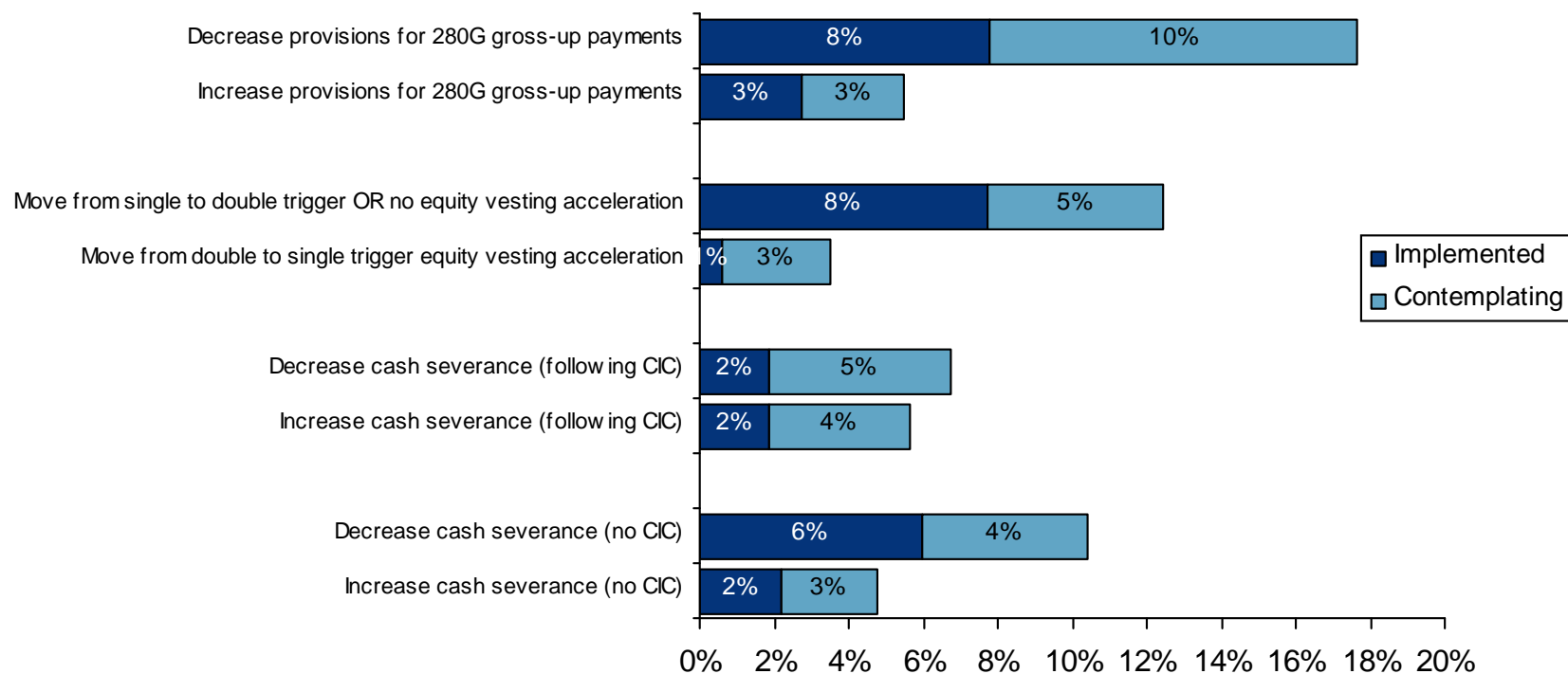


- Eliminate exec perqs that lack a legitimate business purpose & that other employees must cover on their own (e.g., personal use of corporate aircraft, car allowance, club dues, tax preparation services).
- Exec perqs with a legitimate business justification include business use of corporate aircraft, home security systems and periodic physical exams.

# Severance and Change-in-Control



## Implemented and Contemplated Changes to Severance and CIC Provisions

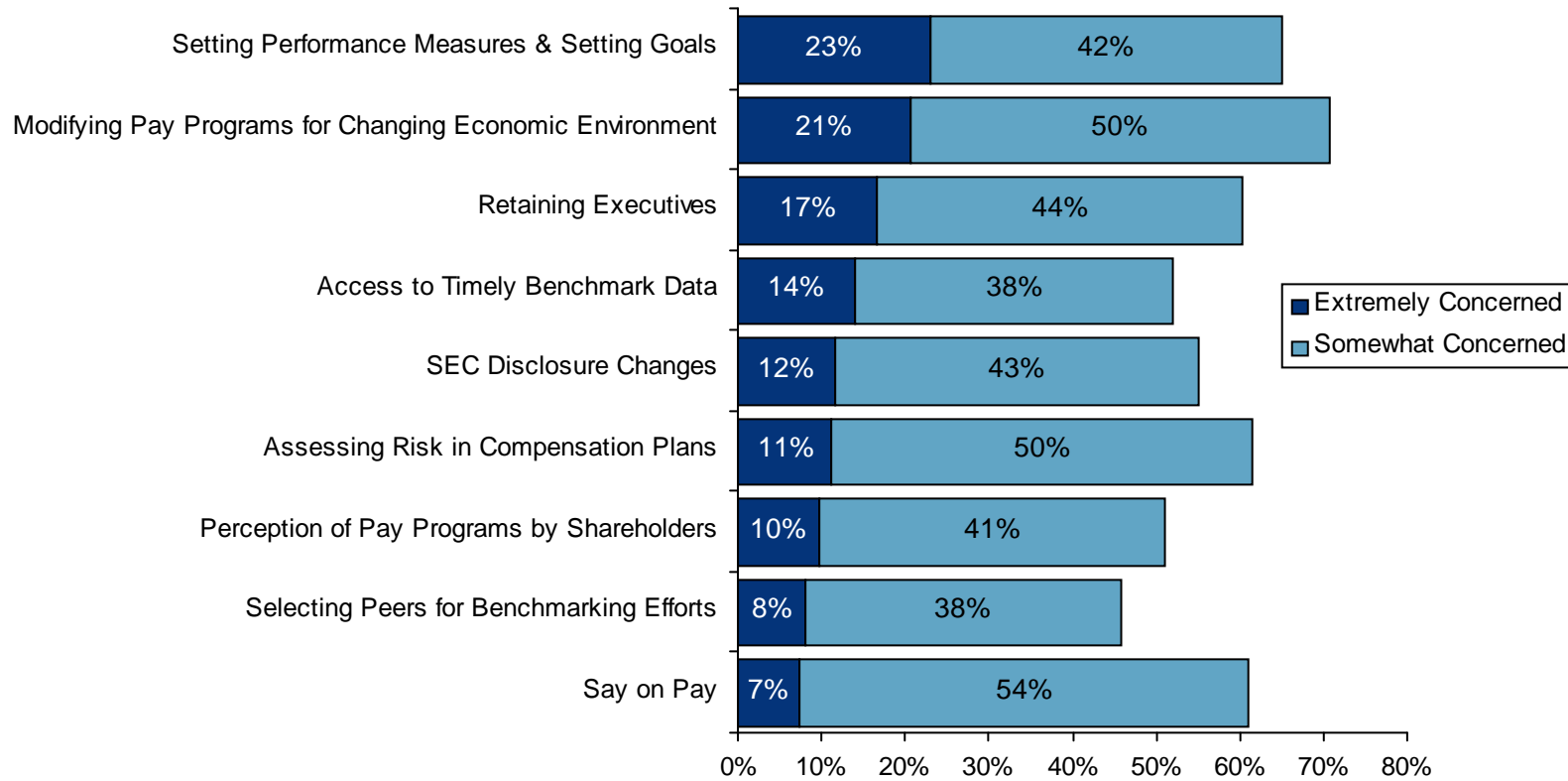


- Vast majority of respondents did not revise their severance or CIC arrangements in FY09.
- But...trend is clearly toward decreasing benefits.
- Benchmarking efforts should focus on similarly situated executives (tenure, age, industry, carried interest and / or past earnings may all be considered).

# Areas of Concern for 2010 – All Respondents



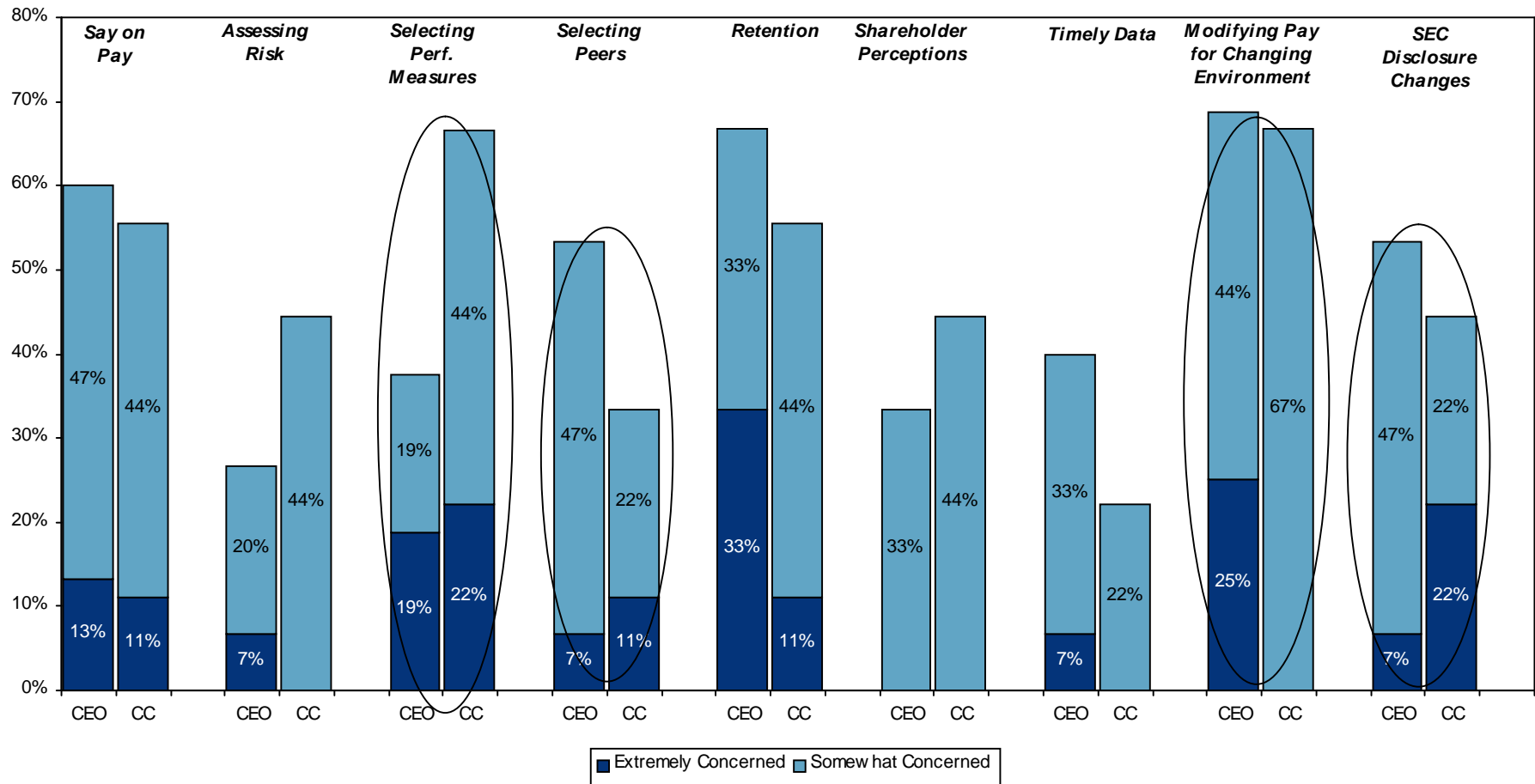
## Areas of Concern for Upcoming Year



# Areas of Concern for 2010: CEO vs. CC



**Areas of Concern for 2010:  
CEOs vs. Compensation Committee Chairs**



# Anticipated Directional Movement in 2010



## Continuing to Emerge

- ↑ Internal Equity Review
- ↑ Bonus Banking / Deferral
- ↑ Clawback Policies
- ↑ Performance-Based Equity
- ↑ Relative Measurement
- ↑ Longer Vesting Periods
- ↑ Ownership Requirements
- ↑ Holding Periods (HTR)
- ↑ Risk Assessment
- ↑ Independent Consultants

- ↓ Automatic Salary Increases
- ↓ Guaranteed Bonuses
- ↓ Uncapped Incentives
- ↓ Mega Stock Grants
- ↓ Employment Contracts
- ↓ Late Career Severance
- ↓ Tax Gross-Ups
- ↓ Executive Perquisites
- ↓ SERPs
- ↓ Boilerplate CD&A's

## Continuing to Decline

# CDE Credit Information



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To learn more about the National Association of Corporate Directors, visit [www.nacdonline.org](http://www.nacdonline.org).



### *Our Next Webcast:*

*Board Pay Preview: Results of the 2009/10 NACD Director Compensation Study*

January 21, 2010, 2pm ET

For more information and registration, visit [nacdonline.org](http://nacdonline.org)



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3. **NACD Chapters** - [https://secure.nacdonline.org/source/meetings/chapter\\_Page.cfm](https://secure.nacdonline.org/source/meetings/chapter_Page.cfm)
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## Thought of a Question After the Presentation?



Please feel free to direct additional questions regarding this presentation to:

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