



TRENDS AND ISSUES REPORT

“Executive Pay in the New Economy” Quick Poll



Table of Contents

Executive Summary	2
Key Findings	3
About Pearl Meyer & Partners	11

Executive Summary

The Pearl Meyer & Partners Quick Poll on “**Executive Pay in the New Economy**” asked board members, executives and human resources professionals about the likely impact of recent financial turmoil on executive pay programs.

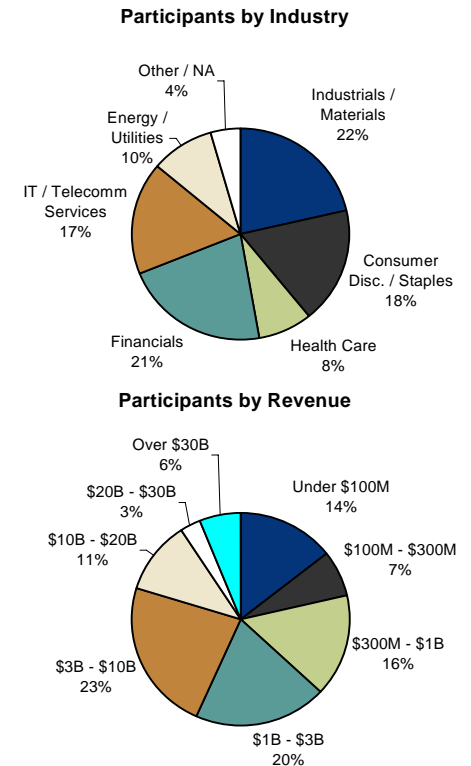
- In addition to this *Trends and Issues* report, you may also attend or replay our December 2nd webcast, “Executive Pay in the New Economy – Setting Pay in Troubled Times” by going to pearlmeyer.com
- To receive a complete copy of the survey findings, contact Jim Heim at jim.heim@pearlmeyer.com

Approach and Methodology

The survey was conducted from late October through early November 2008. The 410 respondents represent 371 organizations from a broad variety of industries and ownership structures, including 80 “outside directors” and 330 “employees of the firm.”

Topics addressed included:

- Base Salaries
- Bonus Payouts
- Long Term Incentives and Equity Awards
- Severance and Security Arrangements



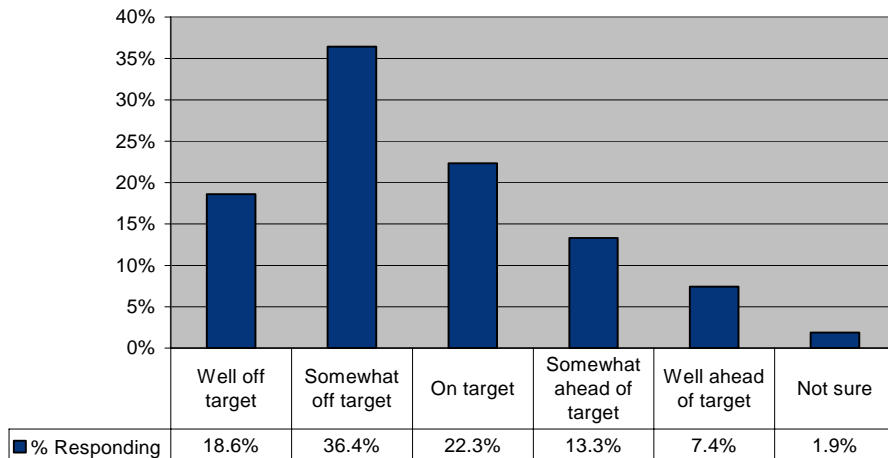
Key Findings

Assessment of Performance vs. Plan or Budget

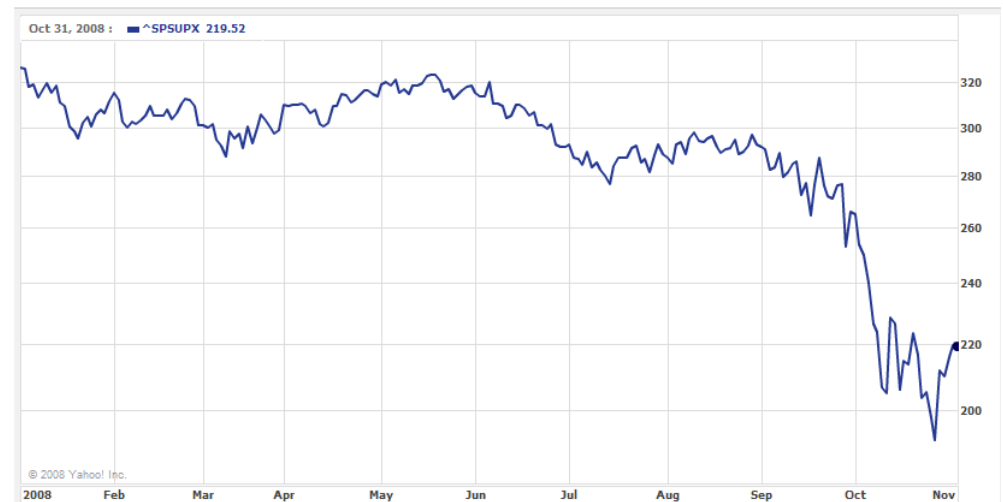
Surprisingly, despite a 34% decline in the S&P 1500 through November 1, 43% of respondents reported company performance “on target” or better. Possible explanations:

- Budgets or performance plans were based on easily attained goals.
- Goals were reset mid-year as market conditions began to deteriorate.
- There is a disconnect between operational measures and shareholder expectations on the downside of performance.

Assessment of Performance vs. Plan or Budget



S&P 1500 Year to Date through November 1, 2008

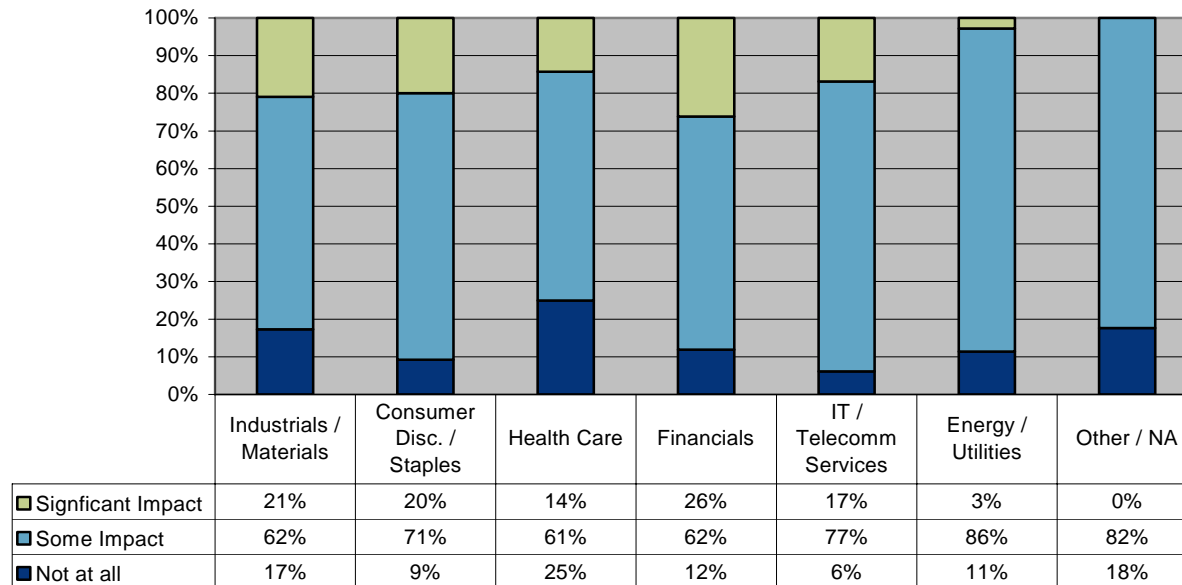


Impact of Financial Market Turmoil on Pay Decision Making

While respondents across all industries expect that market turmoil will affect their compensation decisions over the next 6 months, firms from the Financials sector were most likely to describe the expected impact as “significant.” This is not surprising, given that sector’s particularly severe market downturn and the evolving restrictions on executive compensation put in place as part of the Emergency Economic Stabilization Act of 2008.

All told, 41.4% of respondents who said their performance vs. plan or budget was “well off” target also indicated that the financial market turmoil will have a “significant impact” on decision making around compensation. In contrast, just 17.9% of participants who described performance as “well ahead” of target anticipated that the troubled market will have a “significant impact.” This suggests that companies generally are more comfortable with pay outcomes at the top of the pay-for-performance curve.

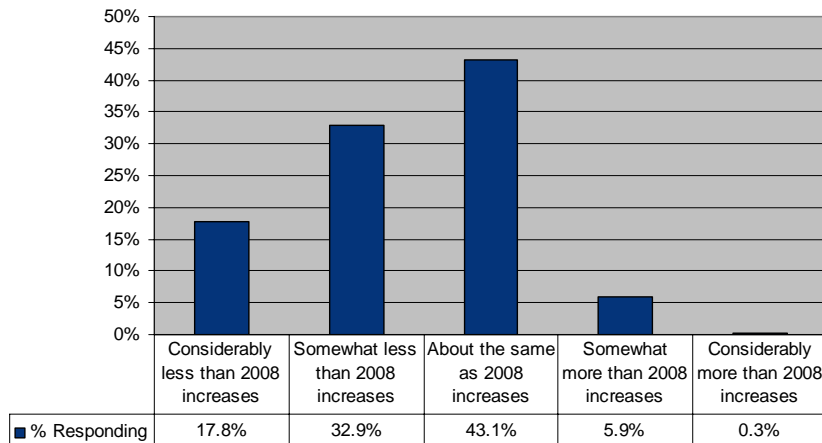
Impact of Recent Financial Market Turmoil on Pay Decision Making Process over the Next 6 Months



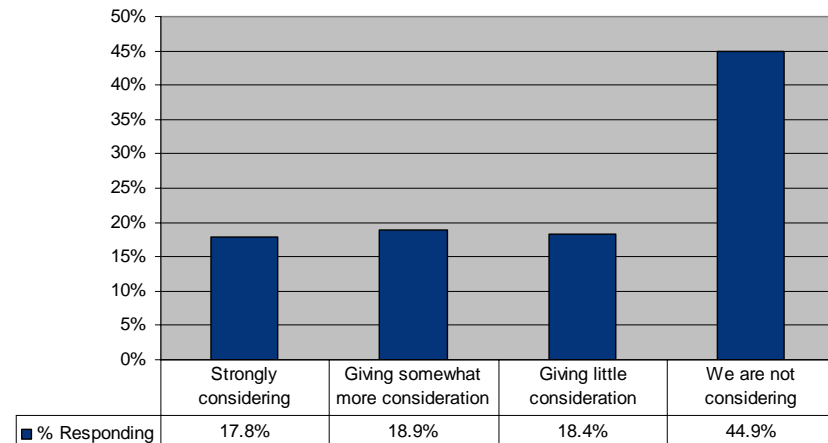
Base Salaries

Slightly more than half of respondents anticipate that 2009 base salary increases for their executive teams will be down from a year earlier, with roughly 18% indicating their companies are strongly considering freezing base salaries. In addition to economic concerns, expanded proxy disclosure around the “why and how” of pay decisions has prompted many Boards to ask whether annual salary increases for executives are necessary, to avoid the impression that executives are being compensated for tenure alone.

Anticipated Executive Team Base Salary Increases for 2009



Are you considering freezing your executive team's base salaries in 2009?

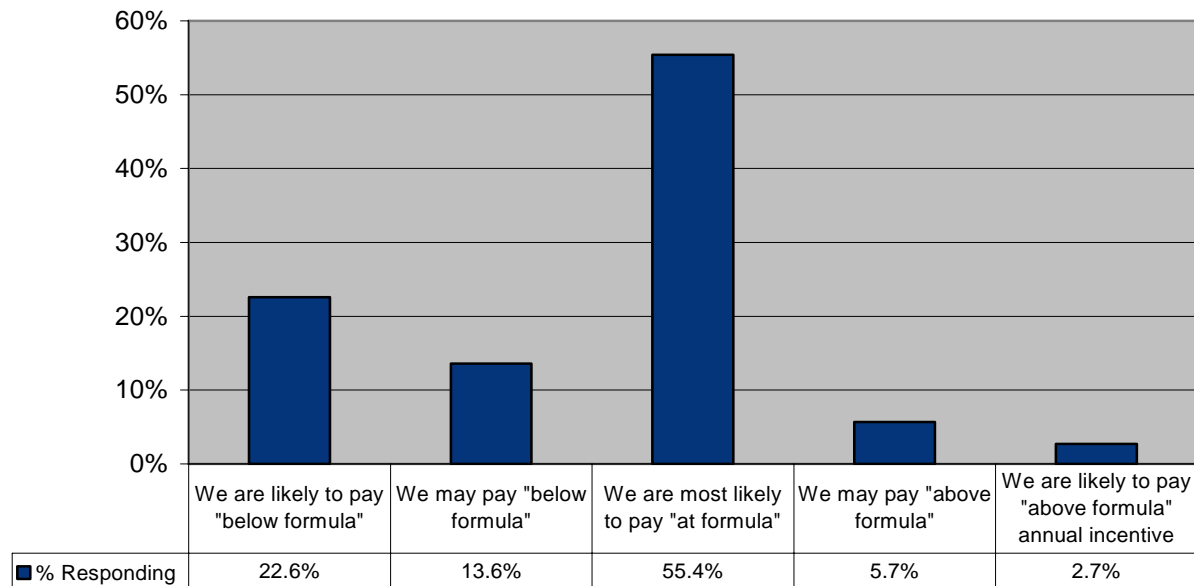


Bonus Payouts

Only 55% of respondents said they expect to pay this year’s incentive payout “at formula.” Additionally, more than 36% said they may exercise discretion to pay a bonus that is “below formula” – that is, less than what executives would have “earned” based on achievement against the plan’s stated objectives. This suggests that some companies believe they may need to correct a disconnect in their goal-setting process in order to better align their executive rewards with market performance.

Making a discretionary payout has implications for how executive compensation is disclosed under revised proxy rules. In the required Summary Compensation Table, annual incentive amounts that deviate from the plan are disclosed under the “Bonus” column rather than the “Non-Equity Incentive Plan Compensation” column.

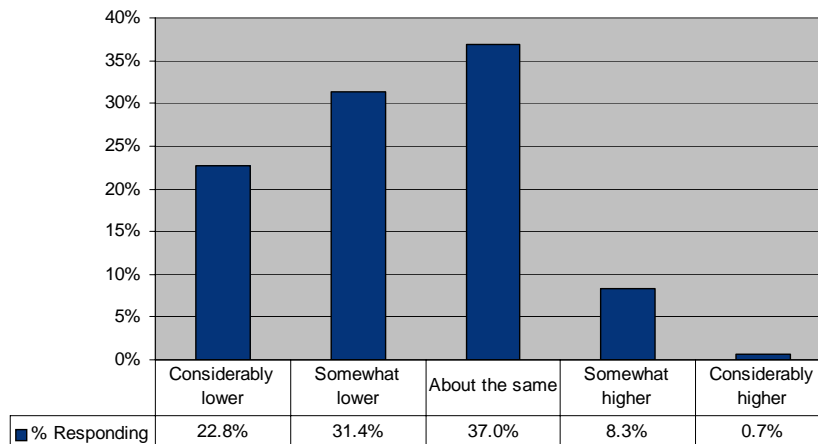
Which statement best describes whether you may exercise discretion in determining this year's incentive payout?



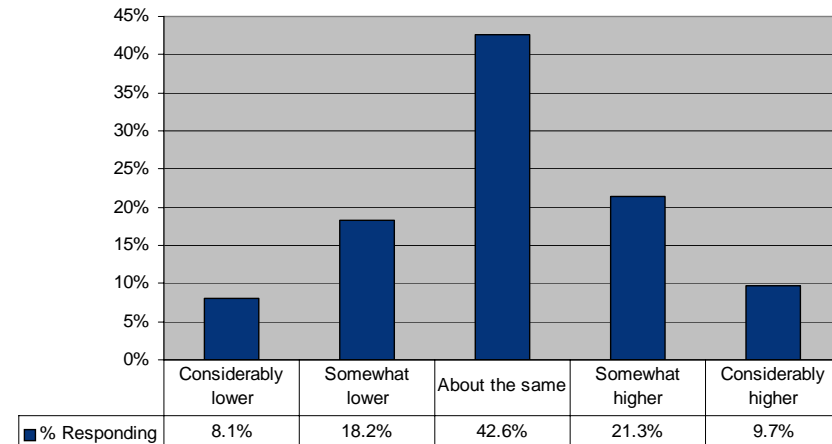
Long-term Incentives and Equity Awards

While more than half of respondents anticipate that the **value** of this year’s award will be lower than last year, their projections for this year’s burn rate (the number of shares granted as a percentage of common shares outstanding) suggests that firms will be granting a similar **number of shares** to executives, albeit at a reduced price given the market downturn.

Economic Value of this Year’s Award, Relative to Last Year’s



This Year’s Burn Rate, Relative to Last Year’s



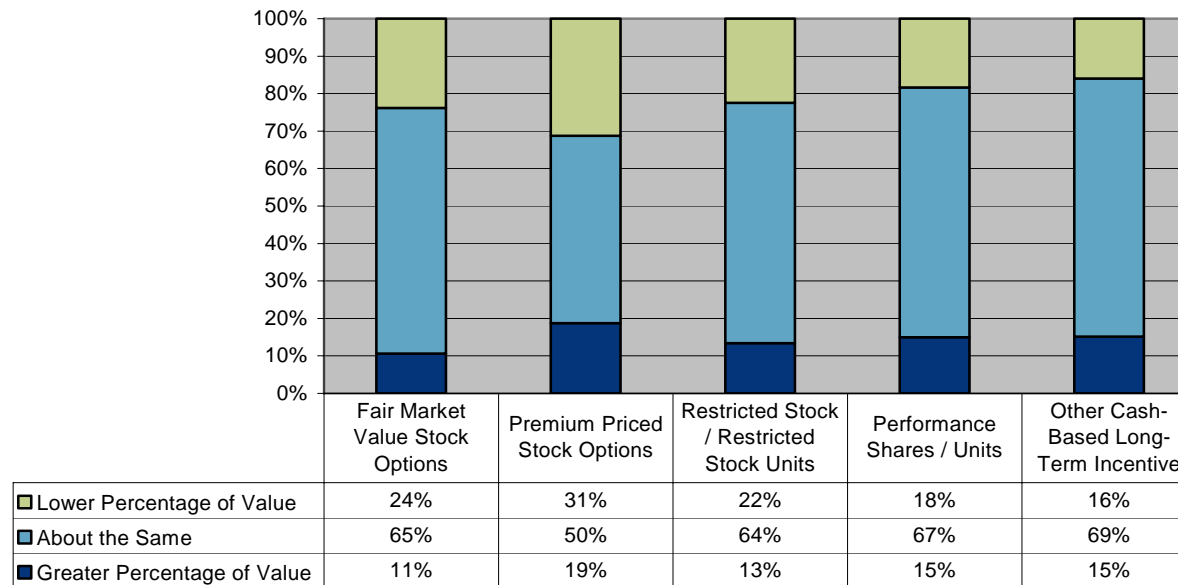
Given the significant decline in share prices during 2008, many outstanding stock option awards that were provided as part of long-term incentive programs are now underwater. Only 4% of respondents at publicly traded firms said they may consider allowing executive to exchange outstanding underwater options for new options, restricted shares, or cash in the next 6 months. However, this is a topic that is likely to receive growing attention over the next year.

Advantages of an Option Exchange Program	Disadvantages of an Option Exchange Program
Reduced dilution and creation of additional shares available for future grant	Negative investor sentiment and potential misalignment of employee and shareholder interests
New motivational and retentive power	Potential creation of non-performance oriented culture
May assist with ownership guidelines	Cost (expense and implementation cost)

Long-term Incentive Instrument Choice

There was little consensus among survey participants as to how LTI instrument choices (that is, which instruments to grant) may be modified in response to market turmoil. Since the adoption of SFAS 123R in 2006, publicly traded firms have spent a great deal of time considering the most appropriate instruments for their own programs, based upon factors such as performance orientation, retentive impact, dilution, expense and shareholder alignment. Over time many companies have adopted a “portfolio” approach that includes a variety of stock-based equity vehicles. A sea change in the prevalence of various instruments does not appear imminent.

How do you anticipate the following LTI award types will account for the total executive award value this year as compared to last year?

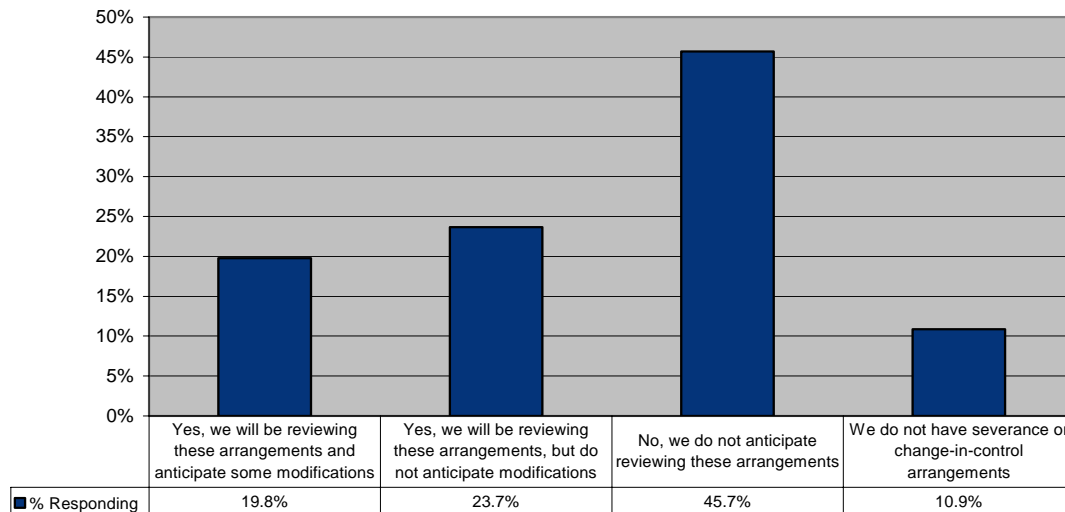


Severance

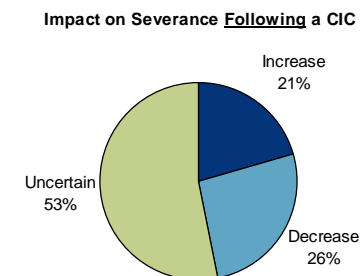
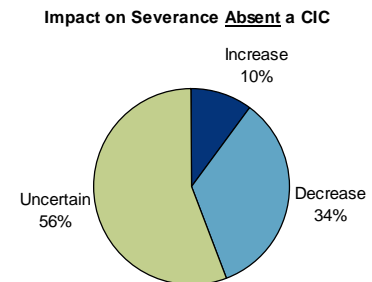
Nearly half of respondents whose companies have severance or change-in-control (CIC) arrangements for their executives anticipate reviewing these programs over the next 12 months, with about 1 in 5 anticipating that they will make modifications to those arrangements. Surprisingly, there was little certainty about the likely outcome of these changes: more than half of respondents who said they plan to modify their programs were “uncertain” as to whether total severance will be increased or reduced.

Generally, the complexity of these arrangements (with payouts dependent on multiple factors including type of termination, years of service, future share price and financial performance) requires that companies very carefully consider the ramifications of any changes and model possible payouts under a wide variety of scenarios in order to avoid unpleasant surprises.

Do you anticipate reviewing your executive severance or change-in-control arrangements during the next 12 months?



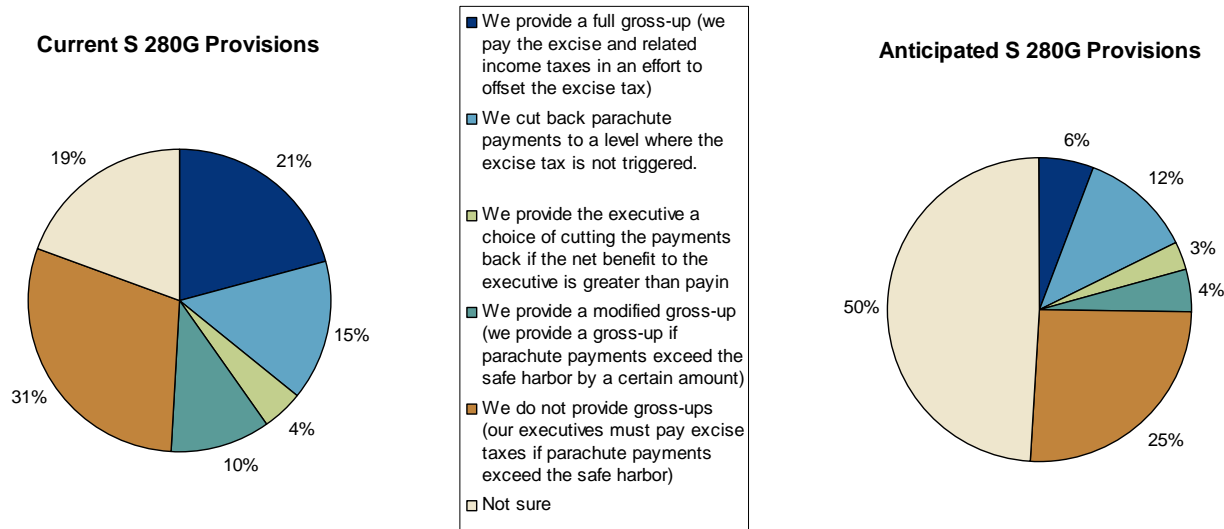
Responses from those anticipating modifications....



Gross-up Payments for §280G Parachute Payments

A surprisingly large number of respondents were uncertain what provisions their companies have in place for payment of excise tax attributable to “parachute payments” following a change-in-control.

The charts below illustrate the prevalence of various approaches to this tax issue. While there is some indication of a retreat from “full gross-ups,” the most significant observation may be the need to review contracts in order to fully understand company obligations and executive risk in these situations.





About Pearl Meyer & Partners

Since 1989, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. PM&P provides comprehensive solutions to complex compensation challenges for companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on PM&P to develop programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston and Los Angeles.

Questions regarding the data in this report may be directed to:

Jim Heim
Managing Director

Email: jim.heim@pearlmeyer.com
Phone: (508) 630-1502

For other inquiries or to receive more information regarding Pearl Meyer & Partners' services, please feel free to contact any of our offices.



www.pearlmeyer.com

NEW YORK

570 Lexington Avenue
New York, NY 10022
(212) 644-2300
newyork@pearlmeyer.com

ATLANTA

One Alliance Center
3500 Lenox Road, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

BOSTON

132 Turnpike Road, Suite 300
Southborough, MA 01772
(508) 460-9600
boston@pearlmeyer.com

CHARLOTTE

3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

CHICAGO

123 N. Wacker Drive, Suite 1225
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

HOUSTON

Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

LOS ANGELES

550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

