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Creating a Strategic Dialogue: The Tough Questions Committees Must Ask about Executive Pay

David Swinford
President and CEO

Pearl Meyer & Partners

Jannice Koors
Managing Director

Katherine Hudson
Lead Independent Director
Compensation Committee Chair
Charming Shoppes, Inc.

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Presenters



- **David N. Swinford**
President and CEO, Pearl Meyer & Partners
Dave Swinford works closely with compensation and governance committees as well as Boards on programs that link compensation with business strategy, contractual arrangements, and incentive plan design, including the development of meaningful performance standards.
- **Jannice L. Koors**
Managing Director, Pearl Meyer & Partners
Jan Koors has more than 20 years of experience in executive compensation, including the development of value-based annual and long-term incentive plans, salary structure development, subsidiary pay programs and performance measure selection.
- **Katherine M. Hudson**
Lead Independent Director and Compensation Committee Chair, Charming Shoppes Inc.
Kathy Hudson previously has served as President, Chairman of the Board and CEO of Brady Corporation. She is also a Director at Telefonaktiebolaget LM Ericsson and the Alverno College Board of Trustees, and a trustee of the Medical College of Wisconsin.

Trends in Executive Compensation



- **Heightened focus and “oversight”**
 - Internal and external scrutiny
 - Increasing rules, regulation and legislation
- **Key themes**
 - Regain public trust
 - Align pay with performance
 - Question traditional benchmarking practices
 - Remove incentives for undue risk-taking
 - Manage dilution downward

Compensation Committee Role



- **Taking “ownership” of the relationship with outside resources to ensure independence**
- **Committees are increasingly sophisticated and educated with respect to pay programs**
 - Continuing formal and informal education
 - Questioning overall company compensation strategy
 - Understanding underlying data and analyses

Questions you should be asking



- **Compensation philosophy**
 - How does our philosophy support our Company culture?
 - What aspects of our philosophy and programs are unique to us?
- **Program design**
 - What long-term (career, 10+ years) retention tools do we have in place for the next generation of leaders?
 - Do our programs provide sufficient flexibility to reward our “stars”?
 - In what areas is our executive compensation program most vulnerable to shareholder criticism?

Questions (cont'd)



- **Performance measures**
 - How do industry analysts assess our performance relative to our peers?
 - What measures do they use?
 - How do we rate?
 - What is the rationale for our STI measures?
 - How do we set performance levels?
 - Over the past 10 years how often have we missed threshold?
beat maximum?
 - How do the LTI performance goals compare to the Company's strategic plan?
 - If the Company can't set LTI performance goals, then what is the basis for business planning, capital resource planning, etc.?

- **Market Data**

- What were the screening criteria used to develop the peer group?
 - What companies were specifically included or excluded (despite meeting/not meeting the criteria)?
- Why is our pay peer group different from our comparators for performance?
- If regression data is used, what is the variance (r^2)?
 - What does explain pay differences among the comparator companies?

Questions (cont'd)



- **Range of pay opportunity**
 - What is the least amount our executives might reasonably earn next year?
 - Is it too much (i.e., is there enough risk)?
 - Is it too little (i.e., does it create retention risk)?
 - What is the most our executives might earn?
 - Is it too much (i.e., could it be viewed as a windfall)?
 - Is it too little (i.e., not enough to reward the extra effort)?
 - Under what circumstances could pay be “out of sync” with shareholder returns?
 - Does our relative performance rank match our relative pay rank?

- **CEO Compensation**

- How has our CEO's pay increased over the past 5 years in comparison to:
 - The pay of other NEOs
 - The pay of our top (20) executives
 - The pay of our average employee
 - The growth in our earnings
 - TSR
- Why does the CEO (or any other senior executive) need a salary increase every year?
 - How have our executive salary increases compared to our rank-and-file increases?

- **Benefits & Perquisites**
 - What benefits will our executives accumulate under the SERP if they work to age 65? to early retirement age?
 - Are the levels appropriate?
 - How do they compare to the retirement benefits of other employees?
 - How do incentive awards impact retirement benefits?
 - What is the business purpose for each of our benefits and perquisites?
 - Does the overall benefits & perquisites package represent a competitive advantage or disadvantage in recruiting and/or retaining talent?

- **Severance & CIC**
 - Do CIC benefits represent a “neutral” incentive to doing a deal, or do they
 - Cause executives to shy away from a deal?
 - Encourage executives to sell the Company?
 - Why does a long-tenured executive continue to need an employment contract?



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Questions?



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THANK YOU!

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- A copy of these slides and replay of this webcast will be available by Monday, November 19, 2007 to NACD members at www.nacdonline.org.