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A Clark Consulting Practice

Impact of Proposed Proxy Rules on Executive Pay

Increase	Decrease
<ul style="list-style-type: none"><li data-bbox="275 548 926 662">✓ Government intervention typically backfires<li data-bbox="275 704 806 818">✓ Total compensation scorecard<li data-bbox="275 860 1045 915">✓ Array of programs will expand<li data-bbox="275 958 1037 1071">✓ Greater negotiating power for outside hires<li data-bbox="275 1114 1037 1237">✓ Pay-performance relationship could deteriorate	



Compensation Committee Advisor

Single	Dual
<p data-bbox="317 542 1045 786"><i><u>Ideal Model:</u> Consultant works for the Committee on behalf of the shareholder, and in cooperation with management</i></p> <ul data-bbox="275 829 1003 1360" style="list-style-type: none"><li data-bbox="275 829 1003 948">✓ Government intervention typically backfires<li data-bbox="275 987 1003 1105">✓ Avoids adversarial environment<li data-bbox="275 1144 1003 1198">✓ Most cost and time effective<li data-bbox="275 1237 1003 1360">✓ Need for clear “Rules of Engagement”	



Is CEO Pay Too High?

Yes	No
<ul style="list-style-type: none"><li data-bbox="275 548 1016 716">✓ Too many examples of disconnect between pay and performance<li data-bbox="275 769 1016 937">✓ Corporate governance structures used to determine executive pay are broken<li data-bbox="275 990 982 1040">✓ Consultant “independence”<li data-bbox="275 1094 947 1144">✓ Poor succession planning<li data-bbox="275 1198 932 1248">✓ Over-reliance on surveys	



Setting Compensation Levels

Internal Equity	External Benchmarking
<ul style="list-style-type: none">✓ Competitiveness should <u>not</u> be sole objective✓ Internal equity approach is:<ul style="list-style-type: none">∅ Fair∅ Economical∅ Mitigates market biases∅ Leads to better employee relations and a stronger companies	



Effectiveness of Various LTI Vehicles

Stock Options	Full-Value Awards
<ul style="list-style-type: none">✓ Strong alignment with shareholder interest✓ Leverage✓ No Goal setting required✓ New accounting rules invite creativity<ul style="list-style-type: none">∅ Performance options∅ Indexed options∅ Premium/discount options	



LTI Grant Approach

Single Vehicle	Portfolio Approach
<ul style="list-style-type: none">✓ Simple, eases communication✓ No winners or losers✓ Under new accounting rules, can address multiple objectives<ul style="list-style-type: none">∅ Stock price appreciation∅ Relative performance∅ Long-term operating results	



Setting Compensation Levels

Broad-Based Participation	Select Group
<ul style="list-style-type: none">✓ Objectives<ul style="list-style-type: none">∅ Unites employees in a pursuit of a common goal∅ Fosters an ownership culture✓ Most common among growth companies, recent IPOs, or in support of a company-wide objective	

