



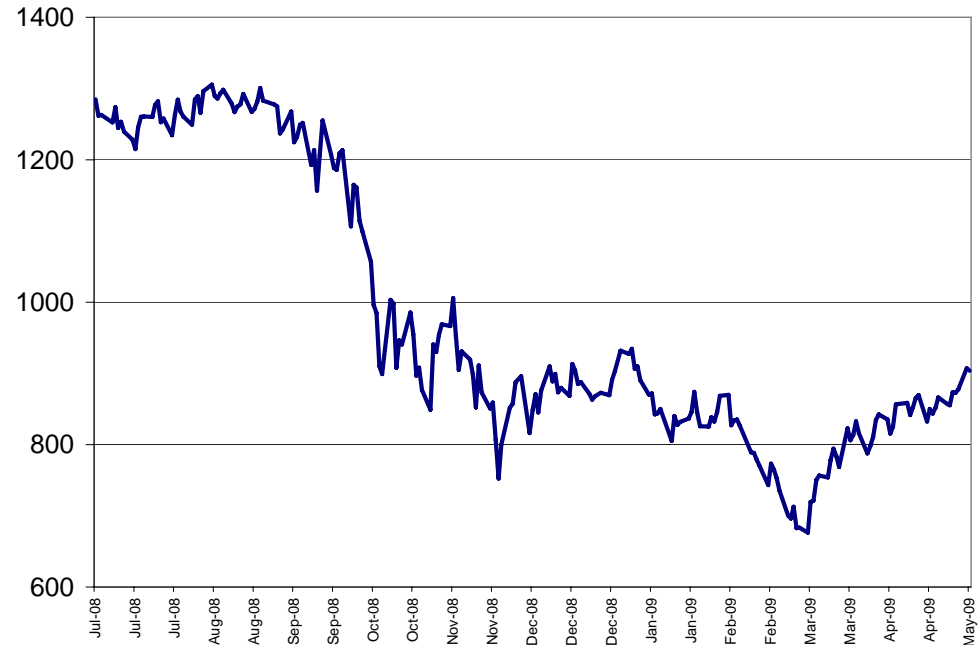
Compensation Committees - Governance and Compensation Trends

Kathleen Connell
President, Connell Group

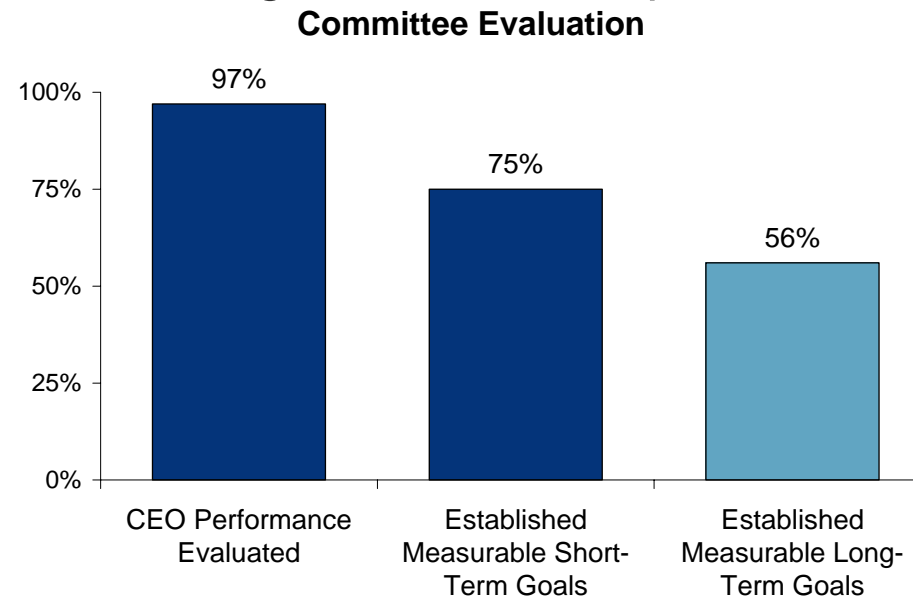
Dan Wetzel
Managing Director
Pearl Meyer & Partners
550 South Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6515

- Economic influences – in some cases beyond executive's control
- Unprecedented public anger
- Restoring trust - accountability for executives and board members
- Pay-performance time warp
- Defining "high performance" in today's environment
- Government's intervention on executive compensation – TARP; Say on Pay
- Resurgent investor activism under Obama administration

**S&P 500 Trends
July 2008 to May 2009**



- Committee effectiveness at CEO evaluation is high, but linkage to goals declines over longer assessment periods



- For the few companies which evaluate the CEO more frequently than annually, +80% believe effective short and long-term goals are established
- 88% feel generally that CEO pay at major US corporations is too high relative to performance

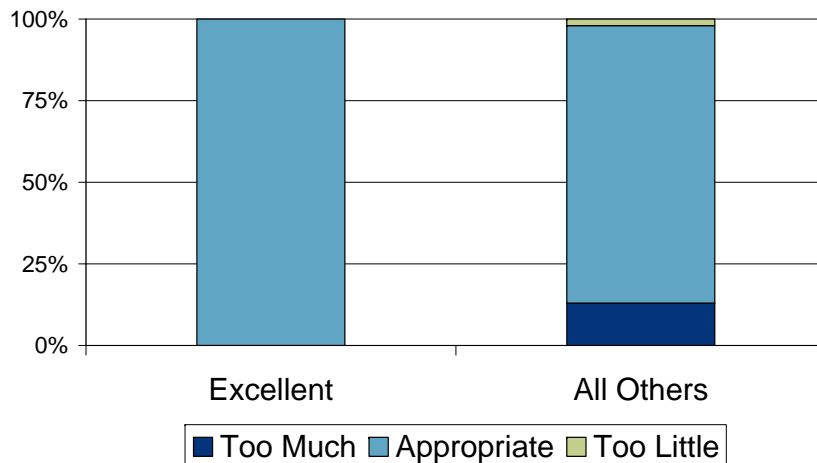
- Only 41% believed that compensation was linked to performance to a great (or very great) extent



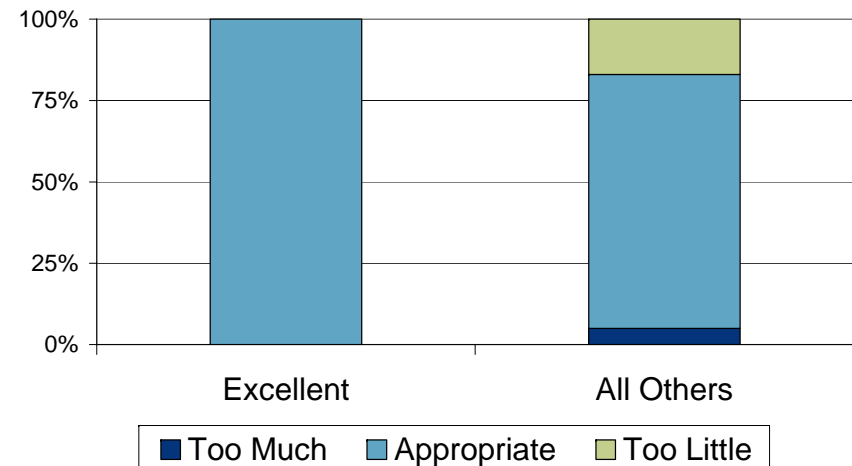
- Boards who engage independent advisors are more likely to feel that the compensation program has improved corporate performance

- High performing committees view CEO influence and Advisor/Consultant influence as appropriate

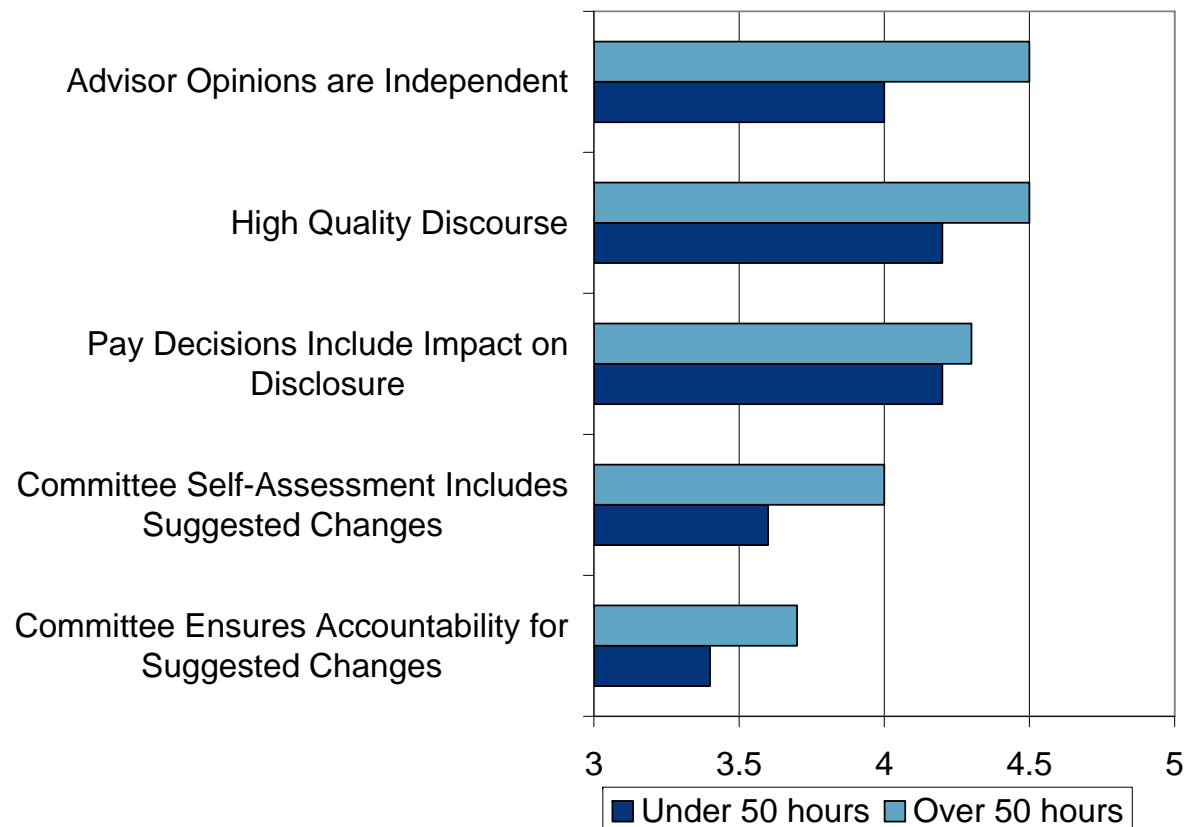
CEO Influence on Executive Pay Decision-Making Process



Advisor/Consultant Influence on Executive Pay Decision-Making Process



- Self described high performing committees share characteristics with committees that spend more than 50 hours per year (30%)
 - Both report higher levels of satisfaction with the process



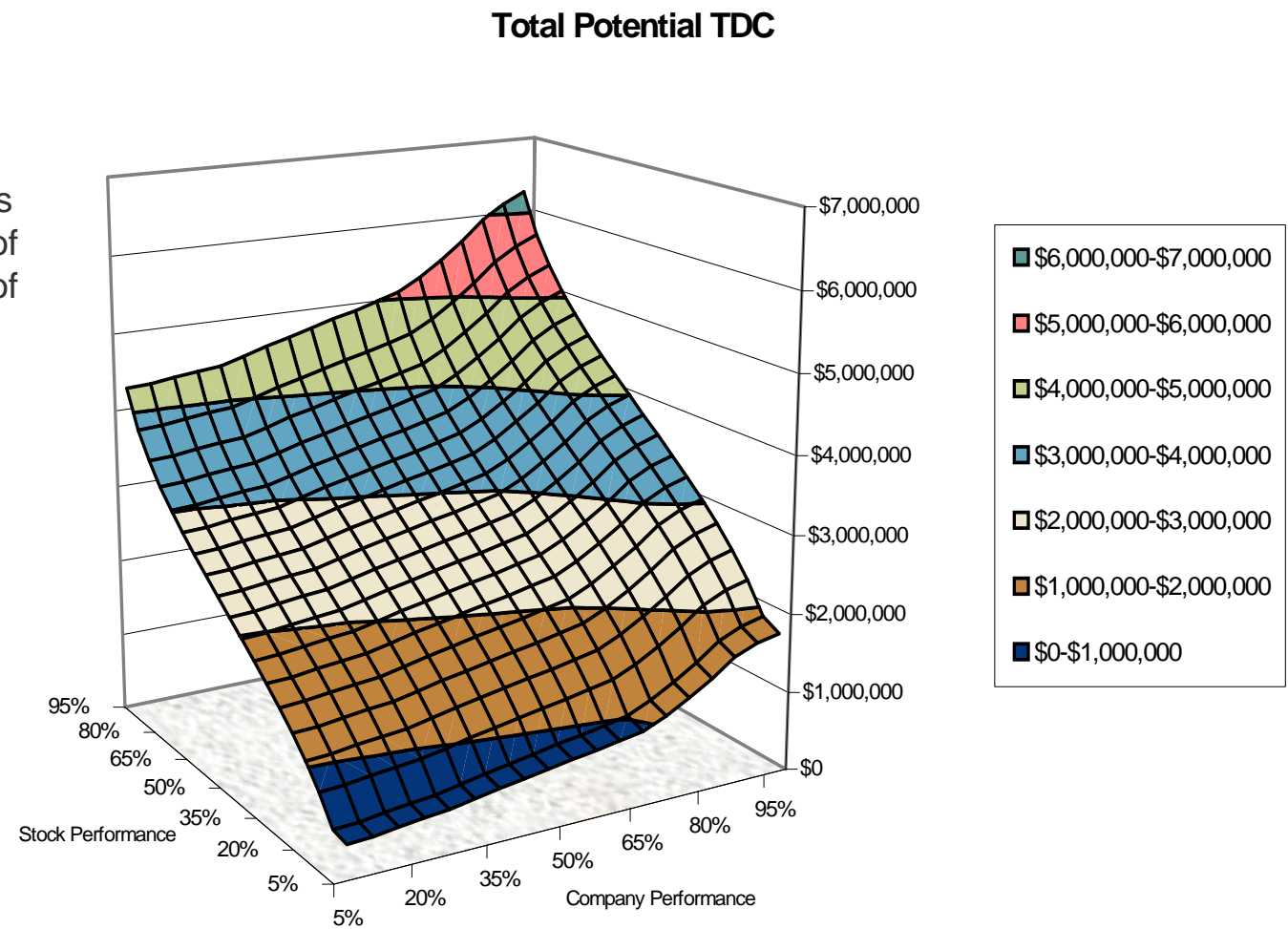
- Landscape of executive compensation is going to change
 - Greater likelihood of more executive compensation regulation
 - Overall more investor influence (e.g. “Say-on-Pay” and government as investor)
 - Greater likelihood that golden parachute rules and the \$1 million deductibility limitation may be revised
 - Increased regulation compliance
 - Pressure to change employment agreements to provide reduced (or no) severance for poor performance
 - Pressure to include clawbacks on incentives
 - Pressure to further limit perquisites
 - Increased focus on incentive compensation (balancing risk-based incentives with performance-based incentives)
 - Higher taxes and lower corporate deductions
 - Increased compensation committee workload

- Competitive risk
 - Can we justify our comparator companies?
 - Can we justify our competitive positioning based on our performance?
- Performance risk
 - Have we identified the right performance measures?
 - Do measures work in concert with one another? What happens if performance results are inconsistent?
- Leverage risk
 - Is maximum performance goal set too high (requires “risky” behavior to achieve)? Too low (resulting in top quartile pay for performance below the top quartile)?
 - Is threshold performance set too low (resulting in unwarranted bonuses)? Too high (perceived as unachievable by participants; creating retention risks)?

- Timing risk
 - Is there an appropriate mix between short-term and long-term?
 - Do incentive payouts “match” decision-making results?
- Contingency risk
 - What financial obligations does the company have in the event of termination?
 - Is there a defined succession plan?

- Understand the range of pay opportunity “Dynamic Pay Model”

- Illustrates potential compensation opportunity for each of the various compensation components and in total over a period of time, rather than thinking of pay as a static amount
- Shows the relationship between pay and multiple measures of performance
- Can simulate the potential results of a compensation plan using either historical performance or future expected performance



Dynamic Pay Model (cont'd)

1.) Is this too much compensation for a CEO performing between the 10th - 20th percentile for company and stock price performance?

2.) Is this an appropriate amount of compensation for a CEO performing at the 50th percentile for company and stock price performance?

3.) Is this an appropriate amount of compensation for a CEO performing between the 80th - 90th percentile for company and stock price performance?

4.) Is an incremental change in potential TDC of 7.8% (btw the 30th and 70th percentile for company performance only) enough incentive to drive executive behaviors on company performance?

5.) Is enough of the TDC package driven by company performance?

6.) Is an incremental change in potential TDC of 77% (btw the 30th and 70th percentile for stock price performance only) an appropriate amount of incentive to drive executive behaviors?

7.) Is an appropriate amount of the TDC package driven by stock price performance?

8.) Is the mix between company and stock price performance appropriate?

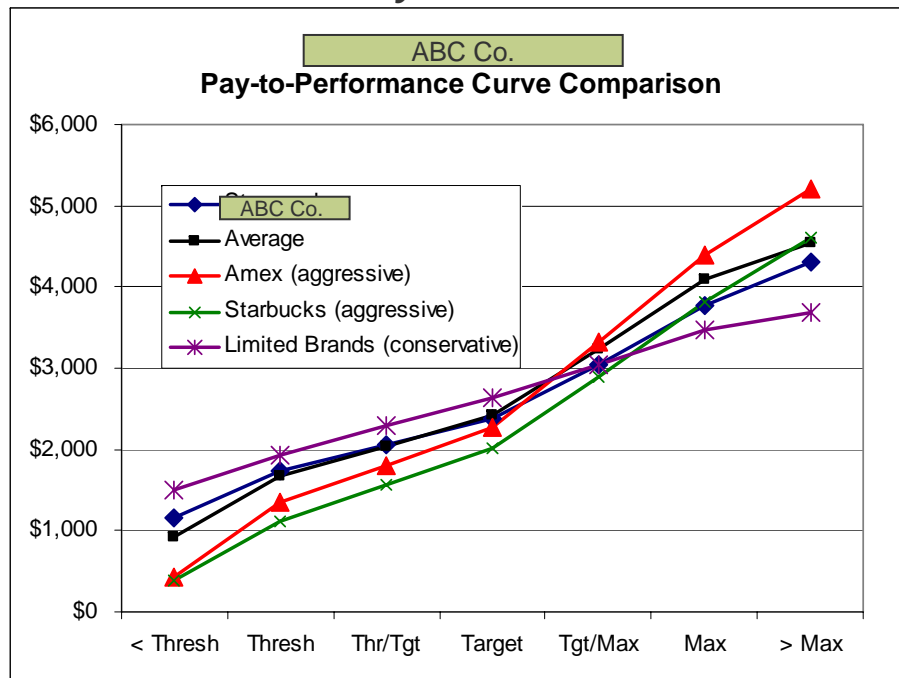
9.) Does this compensation program have a true pay-for-performance orientation?

10.) What behaviors does this type of compensation program drive?

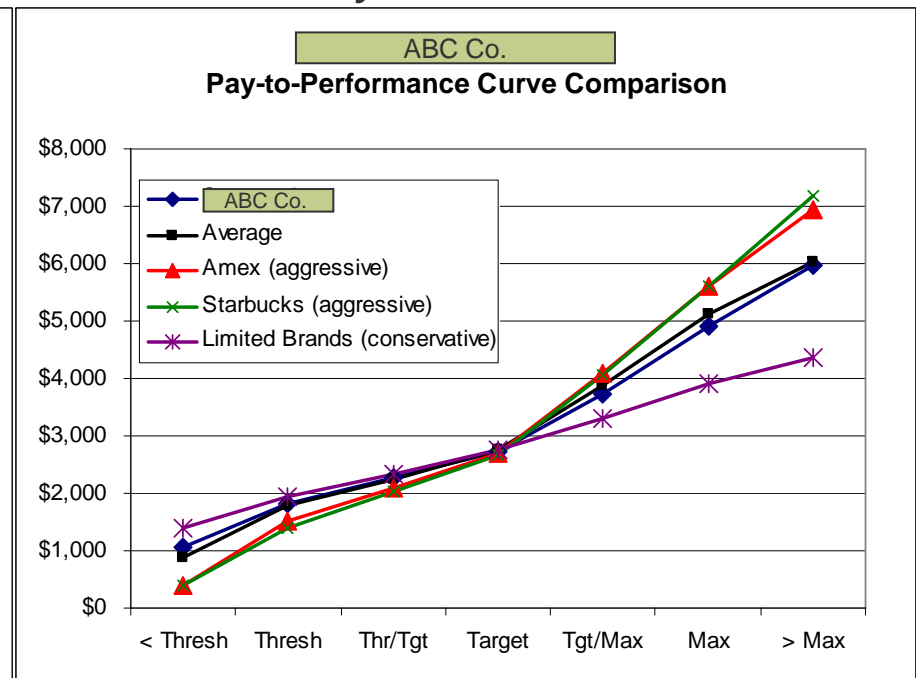
Percentiles		Financial Performance								
		10%	20%	30%	40%	50%	60%	70%	80%	90%
Stock Performance	10%	\$4,630,243	\$4,939,128	\$5,161,917	\$5,352,282	\$5,530,211	\$5,797,105	\$6,082,652	\$6,416,836	\$6,880,164
	20%	\$8,421,768	\$8,730,654	\$8,953,442	\$9,143,807	\$9,321,737	\$9,588,631	\$9,874,178	\$10,208,361	\$10,671,689
	30%	\$11,155,725	\$11,464,610	\$11,687,909	\$11,877,764	\$12,055,693	\$12,322,588	\$12,608,135	\$12,942,318	\$13,405,646
	40%	\$13,491,790	\$13,800,675	\$14,023,464	\$14,213,820	\$14,391,759	\$14,658,653	\$14,944,200	\$15,278,383	\$15,741,711
	50%	\$15,675,254	\$15,984,140	\$16,206,928	\$16,397,293	\$16,575,228	\$16,842,117	\$17,127,664	\$17,461,847	\$17,925,175
	60%	\$17,858,718	\$18,167,603	\$18,390,392	\$18,580,757	\$18,758,687	\$19,025,581	\$19,311,128	\$19,645,311	\$20,108,639
	70%	\$20,194,783	\$20,503,668	\$20,726,458	\$20,916,822	\$21,094,752	\$21,361,646	\$21,647,193	\$21,981,376	\$22,444,704
	80%	\$22,928,740	\$23,237,625	\$23,460,414	\$23,650,779	\$23,828,709	\$24,095,603	\$24,381,150	\$24,715,333	\$25,178,661
	90%	\$26,720,266	\$27,029,151	\$27,251,940	\$27,442,305	\$27,620,234	\$27,887,128	\$28,172,676	\$28,506,859	\$28,970,187

- Competitive Leverage Analysis
 - Careful modeling of the client's incentive compensation programs, and competitor programs, under multiple performance scenarios and time frames reveals some key insights

3-year Basis



5-year Basis



- What Keeps the Compensation Committee Up at Night - The Hit Parade
 - Big Issues
 - » General good governance
 - » Consultant selection/independence
 - » SEC disclosure
 - Worst-Case Scenarios
 - » Employment contracts
 - » Change in control
 - » Severance pay
 - » Golden parachutes
 - » Economic free fall
 - Pay Decisions
 - » Peer group selection
 - » Pay levels
 - » Incentive plan design
 - » Performance targets
 - » Equity plans
 - » Risk Assessment
 - » Benefits & perquisites
 - **Director Compensation**
 - » Importance of independence
 - » Cash vs. equity
 - » Deferred pay