



Executive Compensation – A New Day in Director Oversight

May 19, 2009

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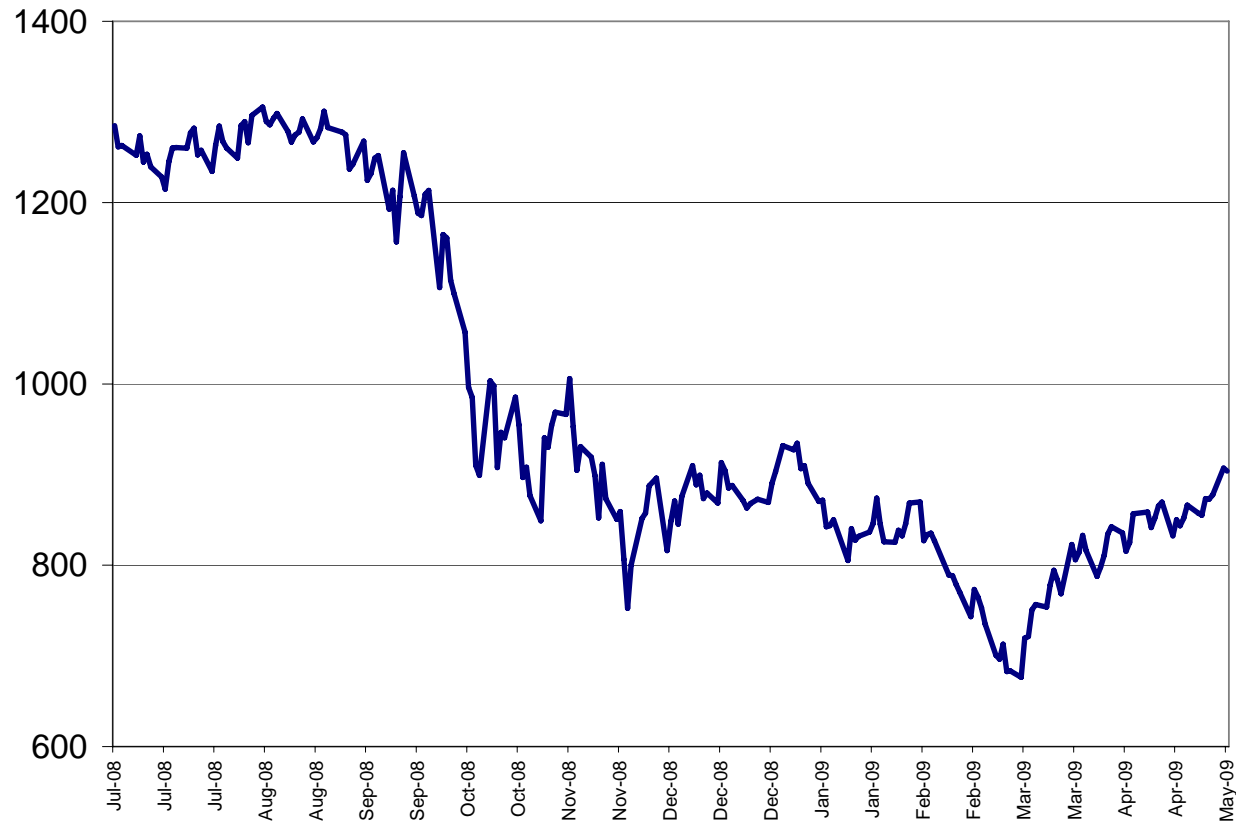


Today's "Explosion" of Challenges for Boards and Compensation Committees



- Economic influences
 - Dismal financial/operating performance
 - Substantial stock price declines
- Political/regulatory intervention
 - American Recovery and Reinvestment Act of 2009 ("ARRA")—better known as TARP
 - Say on Pay
- Governance/systemic issues
 - Unprecedented public anger/lack of trust
 - Resurgent investor activism
- New challenges go directly to heart of corporate and compensation governance
 - FAS123(R) and SEC disclosure—"the good old days"

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



- 2008 revenues up from 2007, but earnings fell



Economic Influences – 2008 Compensation



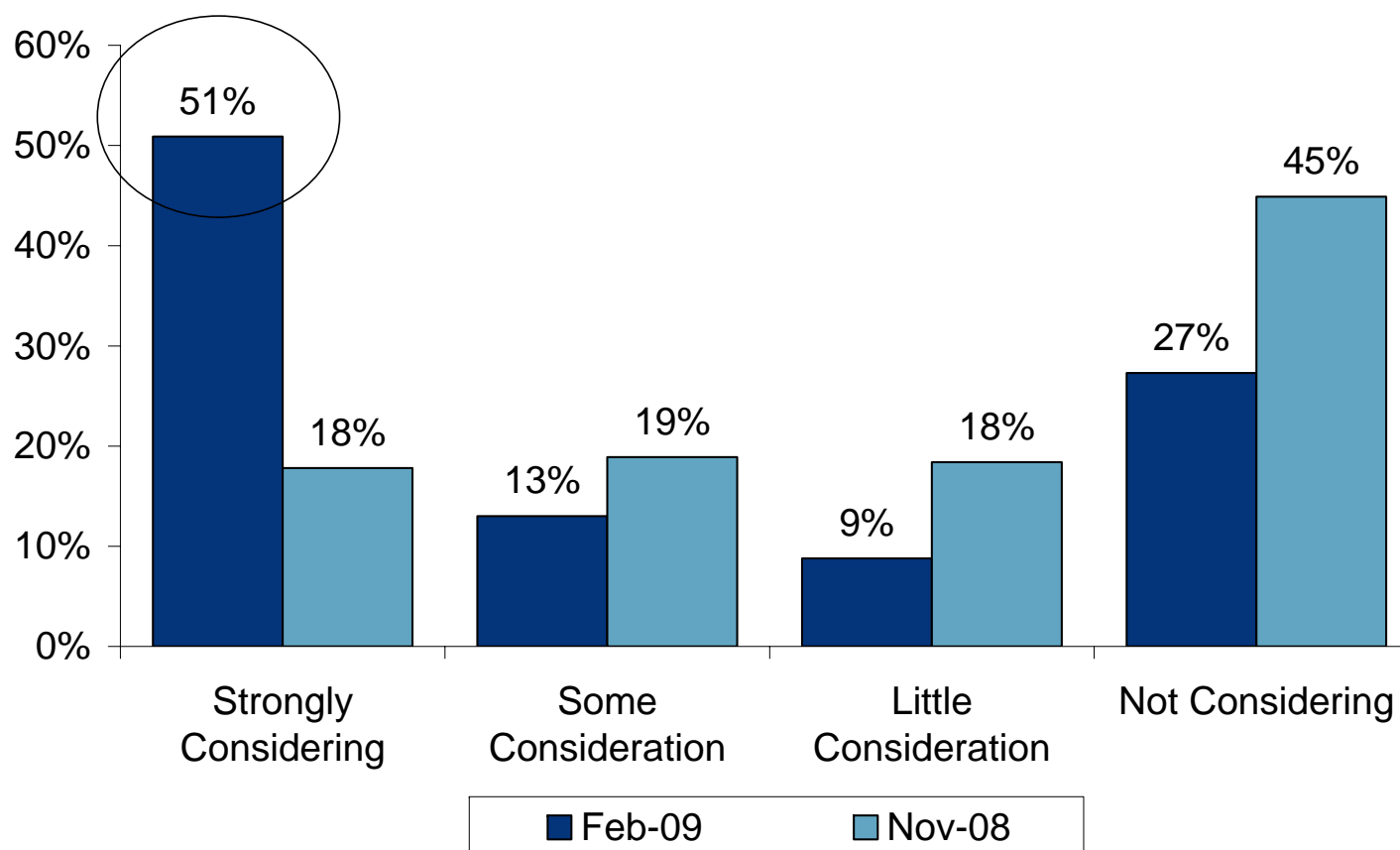
PM&P Top 200 Companies CEO Compensation - 2008 vs. 2007

	Average Compensation			Median Compensation		
	2008/09	2007/08	Δ	2008/09	2007/08	Δ
Same CEOs (187 Companies)						
Base Salary	\$1,229	\$1,182	+4%	\$1,200	\$1,150	+4%
Short Term Incentive	1,983	2,755	-28%	1,620	2,243	-28%
Total Cash Compensation	\$3,212	\$3,937	-18%	\$2,800	\$3,423	-18%
Restricted Stock*	2,057	1,925	+7%	0	0	---
Stock Option Value*	3,528	3,776	-7%	2,581	2,659	-3%
Target LTIP*	3,158	3,488	-9%	2,344	2,590	-9%
Total Long-term	\$8,743	\$9,188	-5%	\$7,252	\$7,593	-5%
Total Direct Compensation	\$11,954	\$13,125	-9%	\$10,206	\$11,066	-8%

* Long-term incentive awards value based on fair value (SFAS 123R) as of grant date .

- Base salaries - most transparent component of pay and marginal increases may simply not be worth the pain

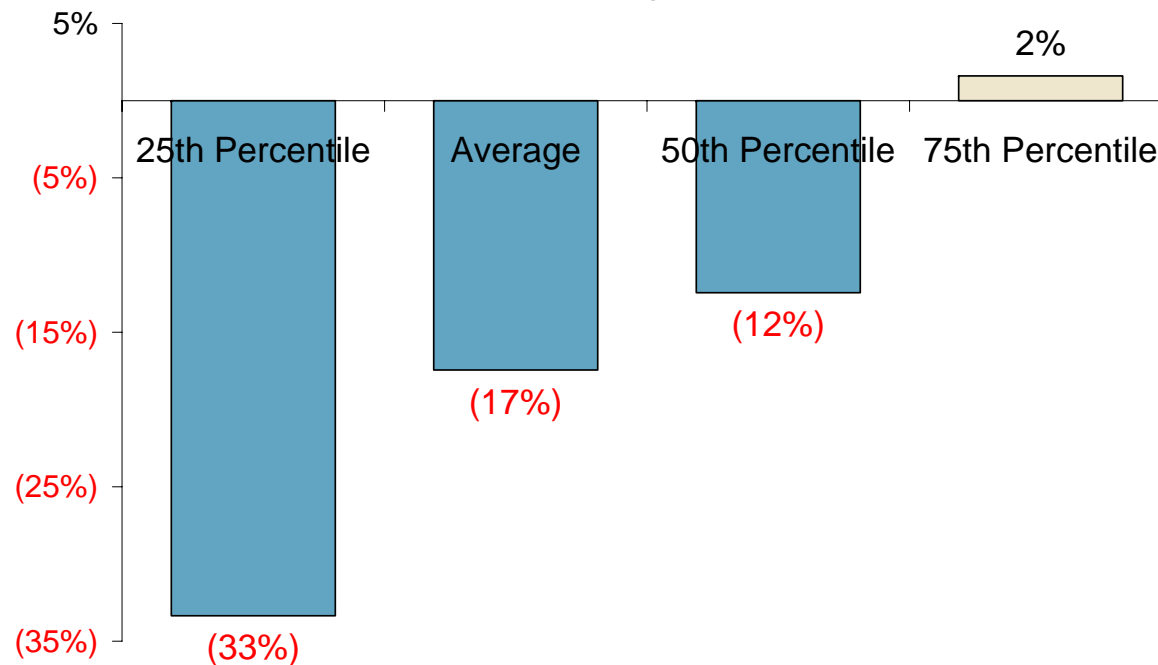
Anticipated Freezing of Executive Salaries for 2009



- Long-term incentives/equity...the survey says
 - 60% anticipate lower award values in 2009 (vs. 2008)
 - 31% anticipate no or little change
- Determining 2009 grant sizes—value-based vs. share-based approach
 - 39% anticipate using economic (value-based) approach to grants
 - » Targeted LTI value divided by stock price (or Black-Scholes value) to determine # of shares
 - 20% will maintain the # of shares at 2008 levels
 - » Results in reduced values, but lowers accounting expense, dilution and share usage
 - 24% will take a middle-ground/hybrid approach

- Preliminary Results: 2009 Top 200 CEO equity awards
 - Companies are granting significantly more shares but delivering less value

2009 (January through May) Equity Award Value vs. 2008 Equity Award Value



- Mix of pay shifting from performance shares to restricted stock

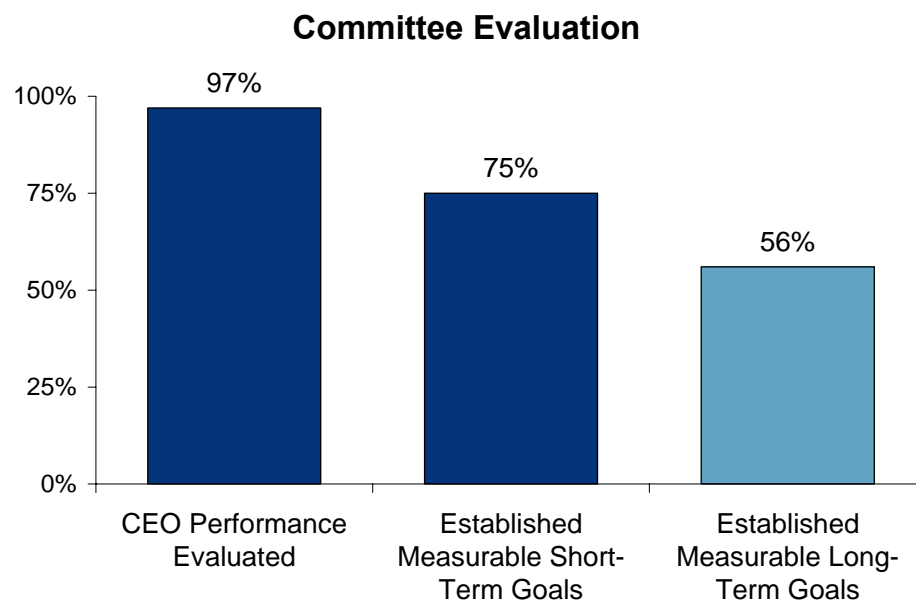
- ARRA introduces unprecedented compensation-related provisions and limitations for recipients of TARP funds
 - “Say on Pay” mandated
 - » Non-binding shareholder resolution regarding executive pay
 - » Mandated and effective for 2009 (proxies filed on/after 2/17/09)
 - IRC Section 162(m) limit on tax deductible compensation lowered to \$500,000 (from \$1 million)
 - » NO CARVE-OUT FOR PERFORMANCE-BASED PAY
 - No bonuses, retention payments or incentives for selected executives until government is repaid
 - » Applicable at least to the CEO, and beyond (based on level of TARP assistance received)
 - Restricted stock value limited to 1/3 of annual compensation, and cannot fully vest until debt repaid

- ARRA compensation provisions (cont'd.)
 - No severance payments (at all) for the top 10 executives
 - Compensation limits retroactive (to 2008) for TARP recipients
 - Mandatory risk assessment regarding all executive incentive plans
 - » Ensure that incentive plans do not encourage “excess risk taking”
 - Incentive claw-back provisions extended to the top 25 executives
 - Required review and disclosure of “luxury expense” policy
 - » Aircraft use
 - » Office renovations
 - » Entertainment/parties
 - » Conferences/events
 - CEO and CFO certification of compliance with compensation provisions/limitations
 - Compensation Committee must meet 2x per year to discuss risk, and must be independent

- More to come?
 - Obama administration considering changes to financial services pay
 - » Curb the way employees are paid to lower risk, develop “best practices”
- Concepts/provisions likely to “jump the rails” to broader universe
 - Say on Pay
 - » At a minimum may be considered a governance “best practice”
 - » At worst, will become a legislated or SEC mandate – Schumer’s Shareholder Rights Act of 2009
 - Heightened reviews and risk assessments of incentive plans—more work for Compensation Committees
 - » Pay mix (fixed vs variable; LT vs ST)
 - » Leverage
 - » Metrics—weightings, overlaps
 - Greater limitations on severance—amounts (multiples), conditions?
 - » Especially for new hires and materially revised agreements
 - » Limits will be less severe than under TARP (won’t go to 0)
 - Expansion of incentive clawbacks below the CEO/CFO and top 5
- Separation of CEO/Chair

- Public anger (and media coverage).....
 - Layoffs, foreclosures, 401k evaporation
 - Wall St. bonuses—short-term at the expense of long-term
 - AIG—”retention bonus” now a dirty word
-begets political response
 - Say on Pay
 - Incentive clawbacks
 - Risk assessments
- Shareholder activism gains primacy; Risk Metrics Group
 - Compensation and share dilution/run rate tests
 - Governance tests—poor pay practices (gross-ups)
 - Repricings/share exchange as “evil”
- AFSCME, CalPers, CalSTRS, Warren Buffet
- Even by our own assessments Compensation Committees vary in effectiveness....

- 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
- However, 88% feel generally that CEO pay at major US corporations is too high relative to performance



Governance/Systemic Issues – Two Director Surveys Highlight the Challenges



- 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

Source: NACD

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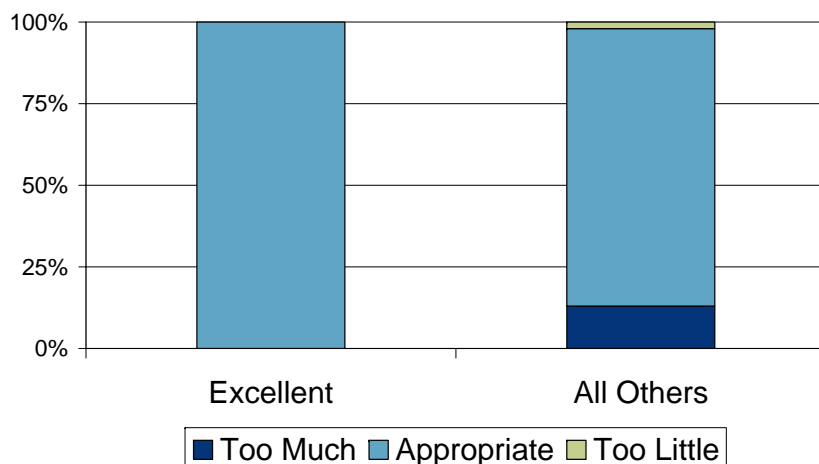


Governance/Systemic Issues – Two Director Surveys Highlight the Challenges

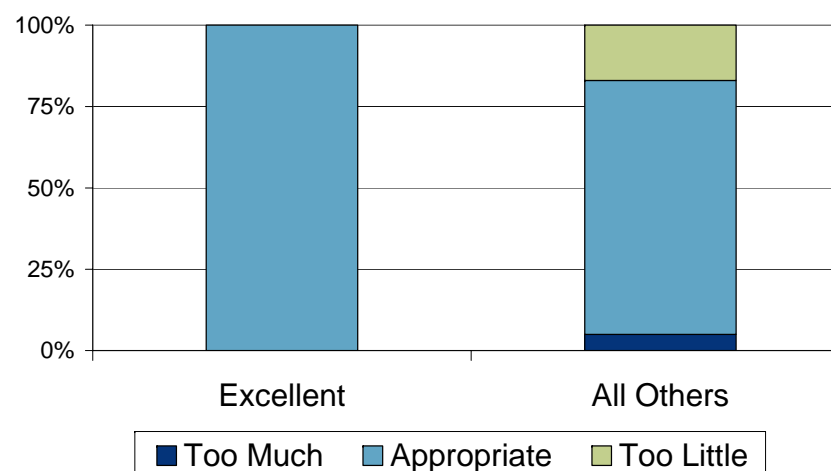


- High performing committees view CEO influence and Advisor/Consultant influence as appropriate

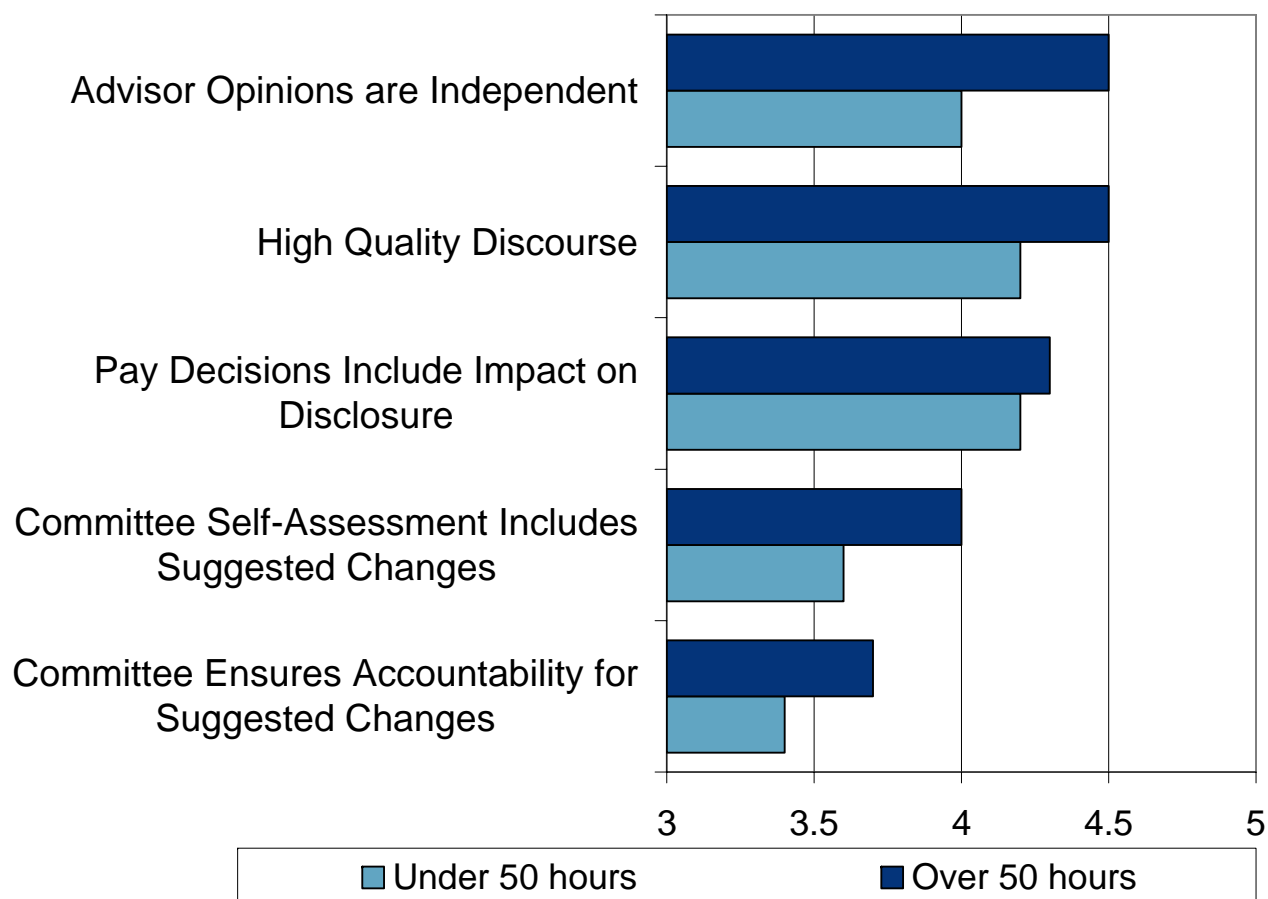
CEO Influence on Executive Pay Decision-Making Process



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



- Restoring trust and accountability for executive compensation programs and their oversight is ***the critical issue*** for Boards and Compensation Committee members in 2009
 - Directors provide the experience and leadership to drive necessary changes to executive compensation to address these challenges and maintain effectiveness to drive business results
- Absent change, compensation governance will be ceded to other stakeholders and regulatory/legislative mandates

- Review executive compensation programs and identify changes **now**
 - Minimize perquisites
 - Minimize tax gross-ups
 - Rationalize severance
 - Adopt clawbacks
- Peer Group selection
 - Use a defensible Peer Group and rationale for benchmarking other than the 50th %ile
- Assess risk in compensation plans
 - Assess and consider reducing risk and leverage
 - Exercise greater rigor in reviewing/selecting incentive plan measures and setting goals
 - Perform dynamic pay modeling – to anticipate issues and avoid potential risks
 - Review emphasis on LTI to stock price performance
 - Lengthen performance and vesting periods on equity

- Maintain meaningful stock ownership and holding requirements
 - Stock ownership guidelines
 - Consider managing “career compensation”
- Improve corporate governance
 - Adopt holistic view to avoid overcompensating
 - Enhance decision-making process
 - Retain independent and experienced consultants
 - » Avoid perceived conflicts of interest
 - Embrace transparency
 - Improve shareholder relations
- Say on Pay—be prepared
 - Knowledge / Program Review
 - Disclosure
 - Shareholder outreach