



TRENDS AND ISSUES REPORT

2008 Proxies that Make the Grade



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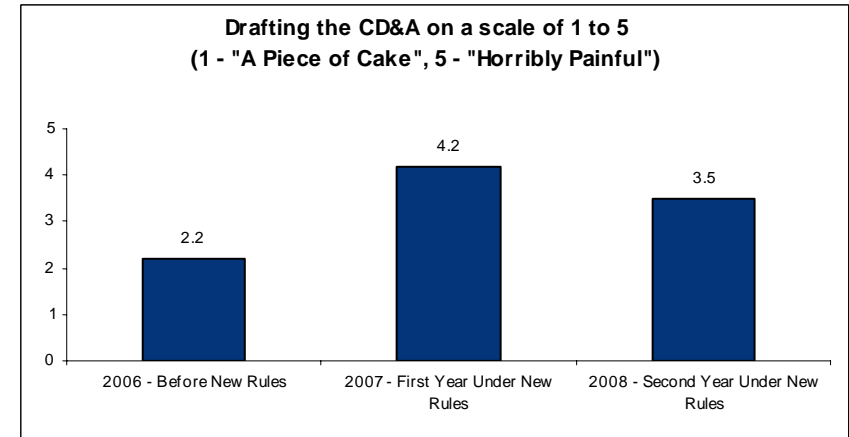
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Executive Summary

Pearl Meyer & Partners is pleased to present its second annual **Proxies that Make the Grade** report, providing findings from a survey of 124 mostly mid-to-large cap U.S. companies about their experiences and views of the executive compensation disclosure process in 2008.

This Year's Proxy Experience

- Drafting the CD&A was somewhat less painful than a year earlier. On a scale of 1 to 5 (1 being "a piece of cake" and 5 being "horribly painful"), respondents gave the CD&A drafting process an average rating of 3.5, compared to a 4.2 rating for the 2007 proxy season.
- Disclosure of performance goals was considered the most challenging aspect of the CD&A process in 2008. On a scale of 1 to 6 (with 1 being the least challenging), reporting of performance goals averaged 4.1, followed by "lack of clarity about what the SEC wants" and "disclosure of factors that went into pay decisions," both at 3.9.
- A majority of participants (63.6%) rated their own companies' CD&As as "Above Average," with 7.6% giving themselves a grade of "Excellent."



Reaction to SEC Comment Letters

- Despite the SEC's continued emphasis on writing the CD&A in "Plain English," participants indicated that 2008 filings were actually somewhat *less* readable than a year earlier.
 - When respondents put their 2008 CD&A through the Flesch-Kincaid Readability Test, the average result was 15.5, which translates to the reading/comprehension level of a college junior. That compares to an average test result of 14.3 in 2007, equivalent to the level of a college sophomore.
 - 80.5% of respondents said their 2008 CD&A was either longer or about the same length as last year.

Executive Summary (Continued)

- When it came to disclosing performance goals – another SEC priority – more than half the companies said they reported corporate goals (54.1%), while more than a quarter disclosed both individual and corporate goals (26.2%). 18.9% said they disclosed neither.

Impact of the SEC Disclosure Rules

- Slightly over one-quarter of the companies (25.8%) said the expanded disclosure requirements had a significant impact on how individual and corporate performance goals were set for short-term incentives, while about the same number (26.8%) said the rules affected the design of long-term incentives.
- More than 90% of this year's respondents indicated that the new disclosure rules have had limited impact on the design of security arrangements such as change-in-control agreements, severance agreements and employment contracts.
- When asked to opine on potential effects of the expanded disclosure on a scale of 1 to 5 (1 being the least impact), respondents rated “a better understanding of compensation programs for investors” the highest (3.2), followed by “opening the door to more shareholder activism” (3.1) and “changes in pay levels” with respondents divided evenly (2.2. each) as to whether executive pay levels will increase or decrease.

Detailed Findings

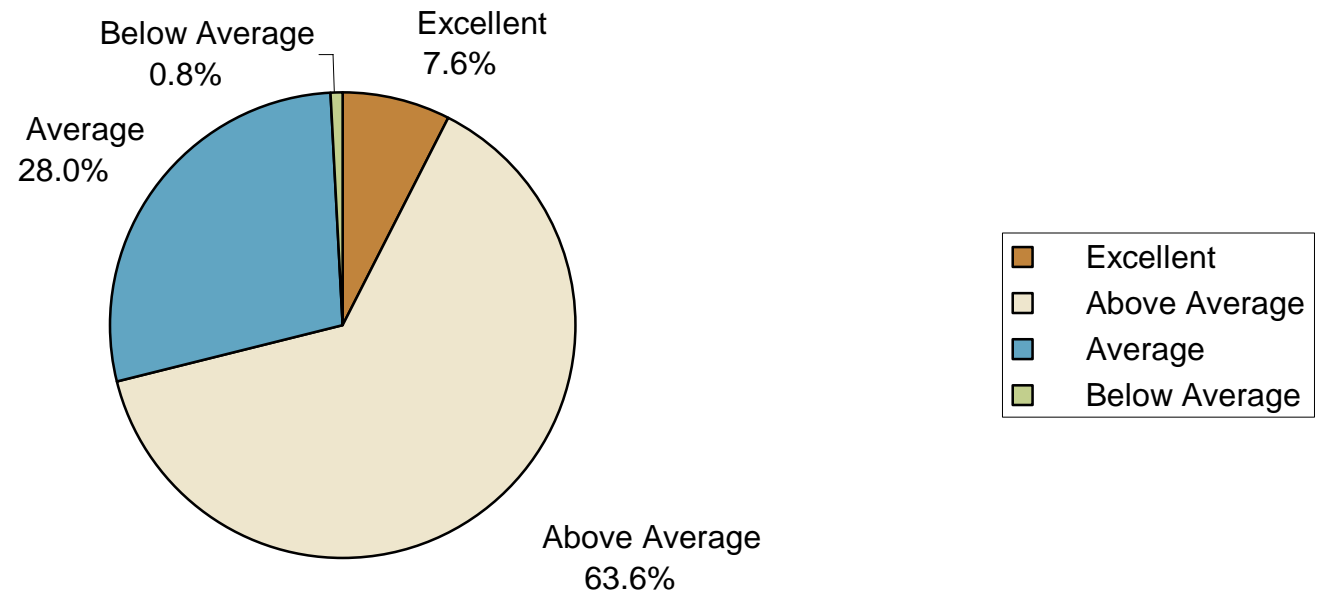
	All Firms	Revenue Category				Grade Assigned to Own Company's Proxy			
		Under \$1 Billion	\$1 Billion to less than \$3 Billion	\$3 Billion to less than \$10 Billion	\$10 Billion or Greater	Excellent	Above Average	Average	Below Average
Number of respondents	124	41	20	24	39	9	75	33	1
Please identify the most appropriate classification of your role within your organization.									
Board of Directors	6.5%	14.6%		8.3%		22.2%	6.7%	3.0%	
Compensation Committee Member	4.0%	7.3%	10.0%			11.1%	4.0%	3.0%	
CEO	0.8%	2.4%						3.0%	
CFO	2.4%	4.9%			2.6%	11.1%	1.3%	3.0%	
VP HR	12.9%	24.4%	15.0%	8.3%	2.6%		13.3%	15.2%	
HR staff member	2.4%	4.9%		4.2%			4.0%		
Head of compensation function	19.4%	7.3%	15.0%	33.3%	25.6%		18.7%	27.3%	100.0%
Compensation staff member	21.0%	7.3%	20.0%	16.7%	38.5%	11.1%	22.7%	12.1%	
Other*	30.6%	26.8%	40.0%	29.2%	30.8%	44.4%	29.3%	33.3%	

*Approximately two-thirds of the respondents indicating "Other" represent the Legal / General Counsel role.

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Number of respondents	124	41	20	24	39	9	75	33	1
How difficult was it to pull together your CD&A this year, compared to 2007 and under the previous SEC guidelines in 2006? (1 = piece of cake, 5 = horribly painful)									
2006									
1 - Piece of cake	16.8%	24.3%	11.8%	9.5%	15.8%	33.3%	11.4%	28.1%	
2	48.7%	45.9%	41.2%	57.1%	50.0%	33.3%	48.6%	50.0%	
3	29.2%	18.9%	41.2%	33.3%	31.6%	33.3%	32.9%	18.8%	100.0%
4	4.4%	10.8%	5.9%				5.7%	3.1%	
5 - Horribly painful	0.9%				2.6%		1.4%		
2007									
1 - Piece of cake	0.8%	2.4%				11.1%			
2	3.3%	7.3%	5.3%				2.7%	6.3%	
3	17.4%	29.3%	15.8%	4.2%	13.5%	22.2%	14.7%	25.0%	
4	35.5%	29.3%	52.6%	29.2%	37.8%	33.3%	38.7%	28.1%	
5 - Horribly painful	43.0%	31.7%	26.3%	66.7%	48.6%	33.3%	44.0%	40.6%	100.0%
2008									
1 - Piece of cake	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
2	12.5%	21.1%	16.7%	9.1%	2.9%	25.0%	12.5%	10.0%	
3	33.9%	34.2%	33.3%	36.4%	32.4%	37.5%	33.3%	33.3%	100.0%
4	48.2%	42.1%	44.4%	54.5%	52.9%	25.0%	47.2%	56.7%	
5 - Horribly painful	5.4%	2.6%	5.6%		11.8%	12.5%	6.9%		
How difficult to pull together CD&A -2006	2.2	2.2	2.4	2.2	2.2	2.0	2.4	2.0	3.0
How difficult to pull together CD&A -2007	4.2	3.8	4.0	4.6	4.4	3.8	4.2	4.0	5.0
How difficult to pull together CD&A -2008	3.5	3.3	3.4	3.5	3.7	3.3	3.5	3.5	3.0

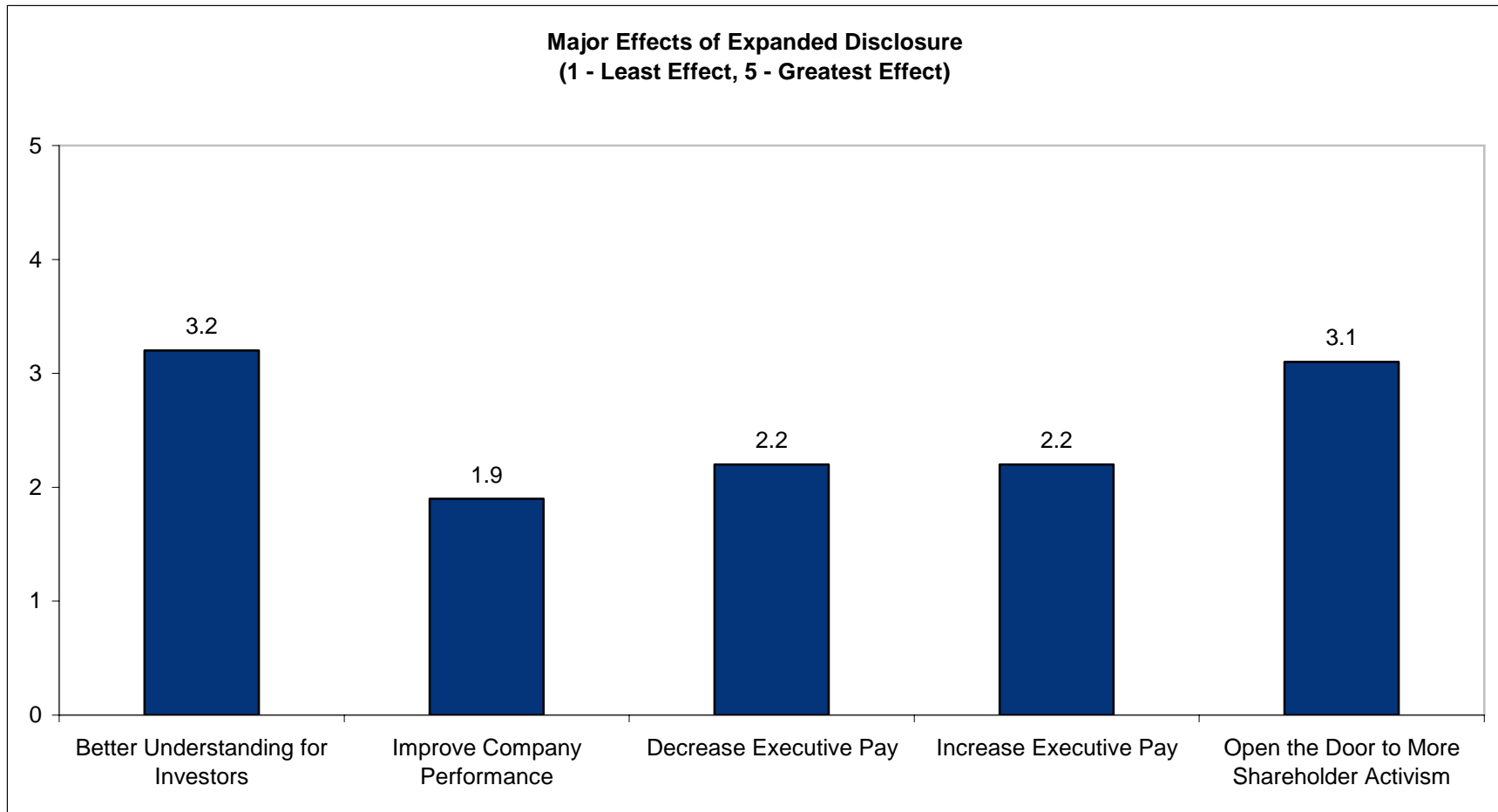
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Number of respondents	124	41	20	24	39	9	75	33	1
What was the length of your 2008 CD&A in comparison to 2007?									
Shorter	13.0%	9.8%	10.0%	12.5%	18.4%	22.2%	18.7%		
Longer	43.1%	39.0%	45.0%	37.5%	50.0%	33.3%	40.0%	57.6%	
About the same	37.4%	46.3%	40.0%	45.8%	21.1%	44.4%	37.3%	39.4%	100.0%
Don't know	6.5%	4.9%	5.0%	4.2%	10.5%		4.0%	3.0%	
If you run your CD&A through a Microsoft Word[™] spell checker, what score do you get for readability (i.e., the Flesch-Kincaid Grade Level)?									
	15.5	16.0	15.7	15.2	15.5	15.3	15.4	15.8	
How would you grade your company's 2008 CD&A?									
Excellent	7.6%	5.1%	15.8%	8.3%	5.6%	100.0%			
Above Average	63.6%	56.4%	47.4%	62.5%	80.6%		100.0%		
Average	28.0%	38.5%	31.6%	29.2%	13.9%			100.0%	
Below Average	0.8%		5.3%						100.0%
Did your company disclose the names of the peer group companies used in your executive compensation benchmarking?									
Yes	85.2%	75.6%	85.0%	87.0%	94.7%	100.0%	87.8%	75.8%	100.0%
No	14.8%	24.4%	15.0%	13.0%	5.3%		12.2%	24.2%	
Did you list the surveys and the survey participants used in your executive compensation benchmarking in the CD&A?									
Named survey sources									
Yes	52.1%	55.0%	52.6%	54.5%	47.4%	62.5%	52.1%	56.3%	100.0%
No	47.9%	45.0%	47.4%	45.5%	52.6%	37.5%	47.9%	43.8%	
Named survey participants									
Yes	20.5%	17.5%	11.1%	22.7%	27.0%	50.0%	15.5%	25.0%	
No	79.5%	82.5%	88.9%	77.3%	73.0%	50.0%	84.5%	75.0%	100.0%

How Would You Grade Your CD&A?

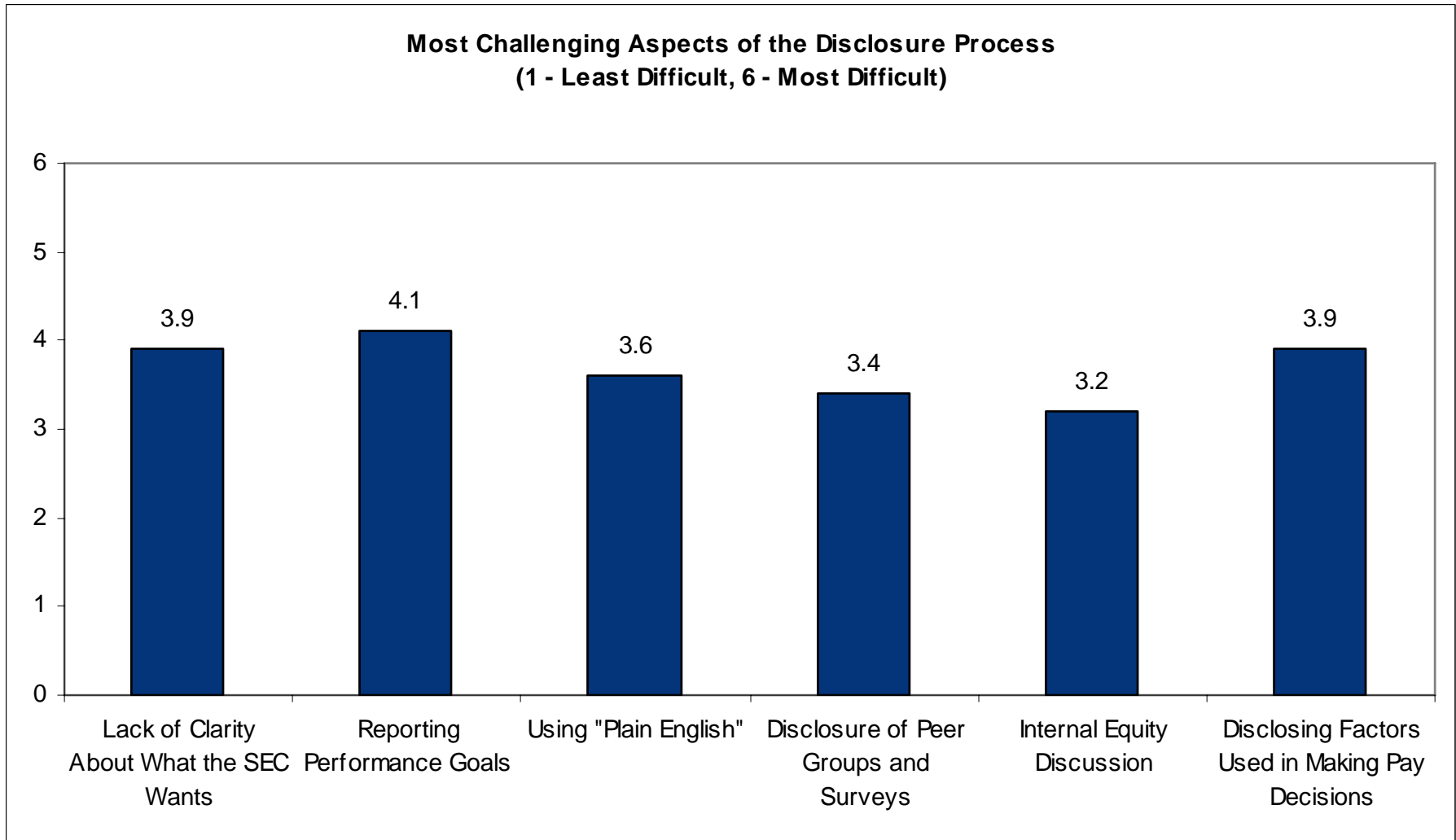


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Number of respondents	124	41	20	24	39	9	75	33	1
Which of the following performance goals relative to your bonus program did you disclose?									
Individual performance goals	0.8%		5.0%					3.0%	
Corporate performance goals	54.1%	46.3%	55.0%	83.3%	43.2%	44.4%	57.3%	51.5%	100.0%
Both individual and corporate performance goals	26.2%	31.7%	20.0%	12.5%	32.4%	44.4%	26.7%	24.2%	
Did not disclose either	18.9%	22.0%	20.0%	4.2%	24.3%	11.1%	16.0%	21.2%	
Do you believe the new disclosure rules impact how you set individual and company performance goals for your short-term incentive programs?									
Yes	25.8%	36.6%	15.0%	20.8%	23.1%	11.1%	28.0%	30.3%	
No	64.5%	58.5%	65.0%	62.5%	71.8%	66.7%	65.3%	60.6%	100.0%
Don't know	9.7%	4.9%	20.0%	16.7%	5.1%	22.2%	6.7%	9.1%	
Has the need to provide more detailed disclosure influenced the design and development of your long-term incentive programs (e.g., establishing more shareholder friendly programs)?									
Yes	26.8%	41.5%	20.0%	34.8%	10.3%	22.2%	28.0%	28.1%	
No	65.0%	56.1%	70.0%	60.9%	74.4%	55.6%	66.7%	65.6%	100.0%
Don't know	8.1%	2.4%	10.0%	4.3%	15.4%	22.2%	5.3%	6.3%	
To what extent have the new disclosure rules impacted the design of your executive security arrangements (e.g., change-in-control agreements, severance agreements, and employment contracts)?									
Major redesign	4.9%		15.8%	4.2%	5.3%	33.3%	4.1%		
Minor changes	36.9%	41.5%	31.6%	41.7%	31.6%	11.1%	41.9%	36.4%	
Not at all	53.3%	51.2%	52.6%	54.2%	55.3%	55.6%	48.6%	57.6%	100.0%
Not applicable	4.9%	7.3%			7.9%		5.4%	6.1%	
What role did your Board of Directors play in the development of your 2008 CD&A in comparison to their role last year?									
More of a role	16.5%	27.5%	10.0%	12.5%	10.8%	11.1%	14.7%	24.2%	
Less of a role	10.7%	7.5%	10.0%	16.7%	10.8%	11.1%	13.3%	6.1%	
Same role	68.6%	62.5%	70.0%	70.8%	73.0%	66.7%	69.3%	69.7%	100.0%
Don't know	4.1%	2.5%	10.0%		5.4%	11.1%	2.7%		

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Number of respondents	124	41	20	24	39	9	75	33	1
What do you think will be the major effects of expanded compensation disclosure? (1 having least effect and 5 having greatest effect.)									
Better understanding of compensation programs for investors	3.2	3.4	3.3	3.1	3.1	3.9	3.4	2.8	3.0
Improve company performance	1.9	2.1	1.3	2.0	2.0	1.9	2.0	2.0	1.0
Decrease executive pay	2.2	2.0	2.2	2.7	2.2	1.4	2.3	2.5	2.0
Increase executive pay	2.2	2.1	2.3	2.3	2.3	2.7	2.2	2.4	2.0
Open the door to more shareholder activism	3.1	2.8	2.6	3.3	3.7	3.9	3.0	3.3	3.0



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Number of respondents	124	41	20	24	39	9	75	33	1
Which aspects of the 2008 CD&A disclosure process did you find challenging? (1 being the least difficult and 6 being the most difficult.)									
Lack of clarity about information the SEC wants	3.9	3.4	3.8	4.2	4.5	4.0	4.0	3.8	4.0
Reporting performance goals	4.1	4.1	4.2	4.1	4.0	1.8	4.1	4.9	6.0
Clearly explaining your company's compensation philosophy in "Plain English"	3.6	3.1	4.0	3.8	3.7	2.4	3.7	3.8	5.0
Determining how much to disclose about the peer group(s) and surveys used for executive compensation benchmarking (i.e., listing benchmark companies, survey sources, etc.)	3.4	3.3	3.4	3.5	3.6	2.9	3.5	3.5	4.0
Internal equity (explaining material differences between CEO and NEO pay)	3.2	3.2	3.1	3.2	3.4	2.8	3.5	3.1	2.0
Disclosing which factors were used and their relative importance in making pay decisions (i.e., market data, tenure, performance, etc.)	3.9	4.0	3.9	3.6	3.9	2.8	4.0	4.1	4.0



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 Jon Ruttgers, Greg Camarco or Mike Enos in our Boston office. For other inquiries or to receive more information regarding Pearl Meyer & Partners' services, please feel free to contact any of our offices.





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