

**2007 NASPP
Fourth Annual Executive Compensation Conference**

The Consultants Speak: Straight Talk from the Top Experts

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The Consultants Speak

- Executive Compensation Train off of its Tracks
 - Although significant strides made recently, need to overcome years of accumulated neglect due to compliant Committees, demanding executives, cowed HR heads, misuse of peer groups/surveys and piecemeal administration
 - Pervasive distrust of management and disenchantment with Board governance
 - Back to the future
 - Start at ground zero and reassess our compensation systems that are twisted out of shape due to patchwork of reactive short-term fixes

The Consultants Speak (cont'd)

- Unless we regroup on our own, we're going to encounter a revolution rather than customary evolution due to
 - Potential for further adverse legislation/regulation
 - Excessive compensation to be football during this election season
 - Corporate America will be caught in political crossfire
 - Current campaigns by shareholder groups include
 - Passage of "Say-on-Pay" legislation
 - Proxy access
 - Direct Board elections
 - Majority election of Directors
 - Right to call special meetings
 - New 2008 proxies with more complete data including comparison to 2007 disclosure (media reaction to 2007 proxies a mild, non-event due to confusion and lack of comparative historic data)
 - Ongoing investigations as executive abuses surface
 - Increasing pressure on size of share allocations and equity grant rates
 - Power of voting advisory services
 - Final 409A rules on deferred compensation
 - Impact of expensing for options and other equity grants
 - Competition for talent from private equity sector

What to Do Now

- Communicate with Compensation Committee and Board
 - Recognize and anticipate hostility of media, politicians, activists, regulators, legislators, investors and voting advisory services
- Accept glare of daylight
 - Explore and correct points of vulnerability
 - Avoid boilerplate and excuses
 - Use tally sheets and wealth tables under various scenarios in analysis and communication
 - Understand importance of demonstrating considered process
 - Review decisions in context of 2008 disclosure and new standards of reasonableness

What to Do Now (cont'd)

- Apply New Standard of Reasonableness
 - Focus on total remuneration and performance-based incentive pay
 - Pullback from service vesting restricted stock and peripherals – i.e., SERPs, special benefits and perquisites and shift dollars to incentive and salary with mandatory deferrals
 - Marketplace positioning justified only by relative competitive performance
 - Integrity and consistency of peer groups
 - Internal relationships justified only by relative responsibilities and individual contribution
 - Tougher earnout for same level of pay (pay for “results”)
 - Re-examine performance criteria and metrics vs. business strategy and creation of both corporate and shareholder value
 - Cutback on share allocations and equity grant rates
 - Crackdown on contracts, CIC payouts, special arrangements; use tighter definitions (devil is in the details)