

Talking Points: “Full Walk Away Value”

By Mike Kesner, Deloitte Consulting

As Watson Wyatt points out, tally sheets should include the “Full Walk Away Value,” not just payments for severance and accelerated equity values. The Full Walk Away Value, which incorporates vested options, SERP’s and deferred compensation, is an excellent “snapshot” of what an executive would be paid as of a specific date (i.e., last day of the fiscal year).

As a supplement to the Full Walk Away Value, we also recommend that you incorporate stock option gains, restricted stock, performance shares and LTI cash plan amounts realized in the last 5 years. This information allows the Committee to see the additional value previously realized by executives, and in some cases, can help reconcile why two comparably situated executives within the Company have completely different walk away values (e.g., an executive cashed-in her stock options early).

We also recommend two forward looking analyses be added to the Full Walk Away Value. The first analysis projects the future walk away value of existing equity awards under various stock price assumptions. The second also projects the future walk away value of outstanding equity awards, but assumes future equity awards are made to the executive on the same basis as the most recent award. In addition, retirement benefits are projected forward as well. Both of these forward looking views of “Full Walk Away Values” allow the Committee to see how future performance and service could impact the value of payments owed upon termination of employment.

I have found the projected value information particularly helpful where executives have a significant number of underwater stock options, as modest increases in stock price can create significant wealth. Future values also provide the Compensation Committee with valuable information relative to a discussion of wealth accumulation targets, future equity awards and the phase-out of severance benefits.

See Attachment I for the “Addendum to Full Walk Away Value”

Addendum to Full Walk Away Value

	Voluntary Resignation	Involuntary For Cause	Involuntary Without Cause	CIC	Disability¹	Death²	Retirement
I. Current “Walk Away Value”	<u>\$33,500,000</u>	<u>\$29,500,000</u>	<u>\$46,625,000</u>	<u>\$76,225,000</u>	<u>\$48,500,000</u>	<u>\$48,500,000</u>	<u>\$33,500,000</u>
II. <u>Gains Realized Last 5 Years</u>							
Option gains realized 2003 - 2007	\$12,800,000	\$12,800,000	\$12,800,000	\$12,800,000	\$12,800,000	\$12,800,000	\$12,800,000
Full value shares vested 2003 – 2007	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>	<u>\$ 6,200,000</u>
Total Gains Realized	<u>\$19,000,000</u>	<u>\$19,000,000</u>	<u>\$19,000,000</u>	<u>\$19,000,000</u>	<u>\$19,000,000</u>	<u>\$19,000,000</u>	<u>\$19,000,000</u>
III. <u>Projected Walk Away Values Based on Existing Equity in 2010</u>							
<u>Assuming:</u>							
• 15% TSR	\$51,000,000	\$47,000,000	\$64,125,000	\$93,725,000	\$59,000,000	\$59,000,000	\$51,000,000
• 10% TSR	\$44,600,000	\$40,600,000	\$57,725,000	\$90,725,000	\$54,000,000	\$54,000,000	\$44,600,000
• 5% TSR	\$38,800,000	\$34,800,000	\$51,925,000	\$87,725,000	\$50,000,000	\$50,000,000	\$38,500,000
• 0% TSR	\$33,500,000	\$29,500,000	\$46,925,000	\$76,225,000	\$48,500,000	\$48,500,000	\$33,500,000
• -5% TSR	\$28,700,000	\$24,700,000	\$41,825,000	\$71,225,000	\$43,500,000	\$43,500,000	\$28,700,000
• -10% TSR	\$24,400,000	\$20,400,000	\$37,525,000	\$65,225,000	\$38,500,000	\$38,500,000	\$24,400,000
• -15% TSR	\$20,600,000	\$16,600,000	\$33,725,000	\$60,225,000	\$33,500,000	\$33,500,000	\$20,600,000
IV. <u>Projected Walk Away Values in 2010 including Future Equity Grants</u>							
<u>Assuming:³</u>							
• 15% TSR 10% TSR	\$61,000,000	\$57,000,000	\$74,125,000	\$115,000,000	\$68,000,000	\$68,000,000	\$61,000,000
• 5% TSR	\$51,000,000	\$47,000,000	\$65,725,000	\$110,000,000	\$60,000,000	\$60,000,000	\$51,000,000
• 0% TSR	\$43,000,000	\$38,000,000	\$58,925,000	\$ 95,000,000	\$56,000,000	\$56,000,000	\$43,000,000
• -5% TSR	\$35,500,000	\$31,000,000	\$50,925,000	\$ 80,000,000	\$50,500,000	\$50,000,000	\$35,500,000
• -10% TSR	\$30,700,000	\$26,700,000	\$43,825,000	\$ 75,000,000	\$45,000,000	\$45,000,000	\$30,700,000
• -15% TSR	\$26,400,000	\$22,400,000	\$39,000,000	\$ 72,000,000	\$41,000,000	\$41,000,000	\$26,400,000
	\$22,100,000	\$18,100,000	\$35,000,000	\$ 70,000,000	\$38,000,000	\$38,000,000	\$22,100,000

¹ Excludes present value of disability benefits provided by XYZ Insurance Company valued at \$9.6 million.

² Excludes death benefit of \$6 million attributable to XYZ Insurance Company policies.

³ Assumes equity awards equal to December 2006 grant values are also awarded in 2007, 2008 and 2009.