

2006 NASPP

Third Annual Executive Compensation Conference: Meeting the New Standards

“The Consultants Speak” on What You Need to Do Now

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The Consultants Speak

- Executive Compensation Train off of its Tracks
 - Need to overcome years of accumulated neglect due to compliant Committees, greedy executives, cowed HR heads, misuse of peer groups/surveys and piecemeal administration
 - Back to the future
 - Start at ground zero and reassess
- Revolution rather than customary evolution due to impact of
 - New SEC disclosure rules
 - 409A rules on deferred compensation
 - FAS 123R expensing changes for options and other equity grants
 - Anti-dilution pressure on size of share allocations and equity grant rates
 - Option dating abuses
 - Potential for further adverse legislation/regulation

What to Do Now

- Communicate with Compensation Committee and Board
 - Hostility of media, activists, regulators, legislators, investors and voting advisory services
 - Distrust of management
 - Disillusionment with Board governance
 - Glare of daylight on new proxy disclosure
 - Importance of demonstrating considered process
 - Review decisions in context of draft CD&A, Committee report and tables
 - Explore points of vulnerability and why
 - Avoid boilerplate and excuses
 - Use tally sheets and wealth tables under various scenarios in analysis and communication

What to Do Now (cont'd)

- Apply New Standard of Reasonableness
 - Focus on total remuneration
 - 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 in share allocations and equity grant rates
 - Lesser opportunity for wealth accumulation/leverage in shift from options to performance-based stock grants
 - Pullback from service vesting restricted stock, SERPs, special benefits and perquisites
 - Crackdown on contracts, CIC payouts, special arrangements; use of tighter definitions

