

Tally Sheet Evolution

Moving From Data Display to Decision Making

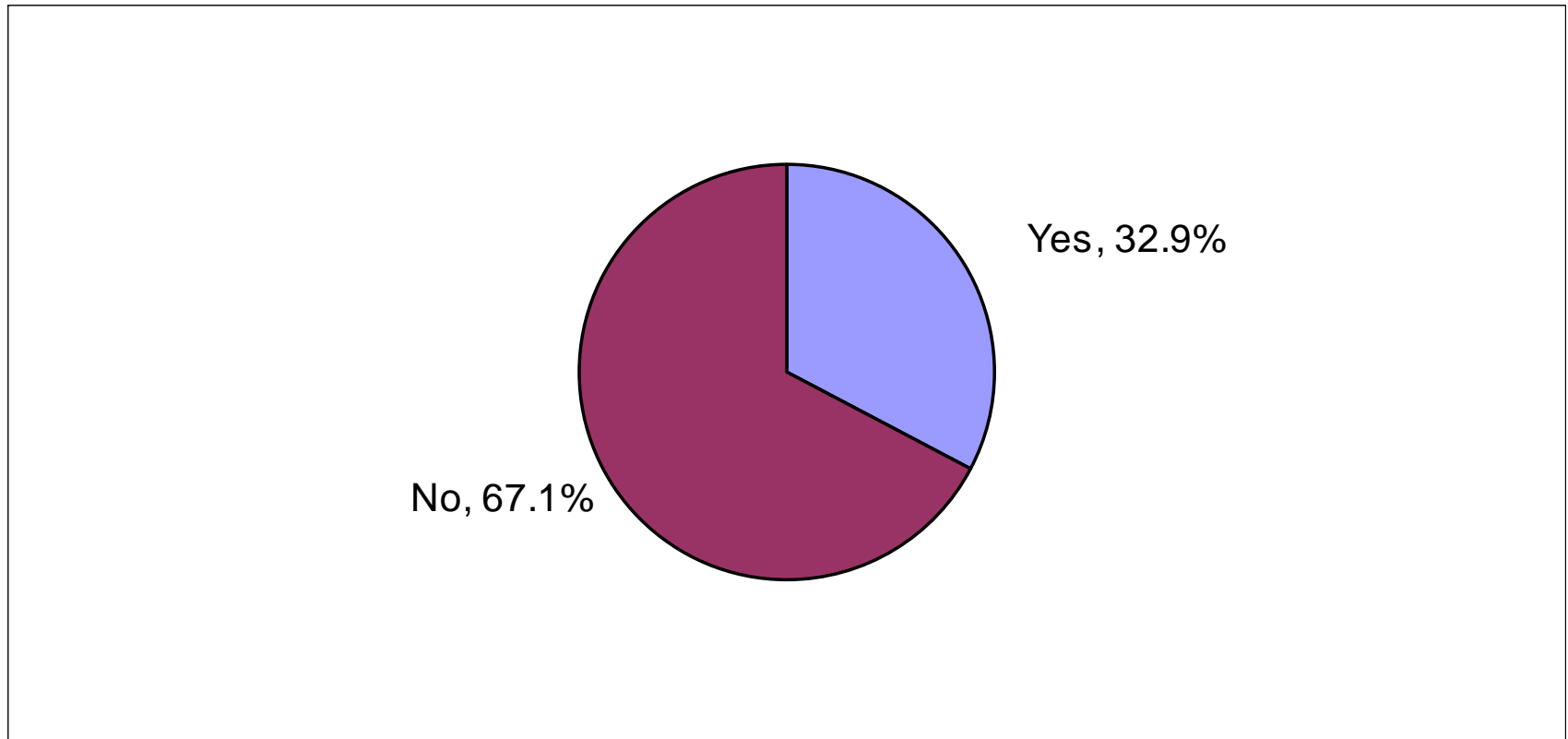
■ A Quick Evolution

- **2004 – First Discussion of Potential Usefulness**
- **2005 – First Widespread Use**
- **2006 – Becoming More Comprehensive**
- **Done? Or Just Starting?**

■ What Next?

- **Term Survives**
- **Purpose Changes**
- **Dynamic vs. Static**

Are Your Tally Sheets Dynamic?



Primarily a Reporting, Rather than Analytical Tool

■ What Next?

- **Dynamic Tally Sheets**
- **Illustrate Potential Compensation Opportunities Dynamically**
- **Show the Relationship Between Pay and Performance**
- **Simulate Potential Results of Pay Plan**
- **Provide Alternative Views**

■ What Drives It?

- **Monte Carlo Analysis Linked to a Tally Sheet**
- **Expresses:**
 - Expected Stock Price Appreciation, Probabilities, Distribution of Prices
 - Expected Company Performance, Incentive Plan Payouts, Probabilities
 - Relationship (Correlation) Between Company Performance, Stock Price
- **Expectations, Probabilities, Distributions – Historic or Projected**
- **Software-Generated, 1000's of Trials**
- **Result: Prediction of Combined Values, Distribution of Results**

Case

Elements: Base, Annual Incentive, Restricted Stock, Options
Expected Value, All Elements: \$12.3M

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		10%	20%	30%	40%	50%	60%	70%	80%	90%
Stock Performance	10%	\$4,084,033	\$4,375,758	\$4,586,170	\$4,765,959	\$4,934,003	\$5,186,070	\$5,455,754	\$5,771,371	\$6,208,959
	20%	\$6,611,214	\$6,902,939	\$7,113,350	\$7,293,139	\$7,461,184	\$7,713,250	\$7,982,934	\$8,298,551	\$8,736,139
	30%	\$8,433,488	\$8,725,213	\$8,935,625	\$9,115,414	\$9,283,459	\$9,535,525	\$9,805,209	\$10,120,826	\$10,558,414
	40%	\$9,990,555	\$10,282,280	\$10,492,692	\$10,672,481	\$10,840,525	\$11,092,592	\$11,362,275	\$11,677,893	\$12,115,480
	50%	\$11,445,908	\$11,737,633	\$11,948,045	\$12,127,834	\$12,295,878	\$12,547,945	\$12,817,628	\$13,133,246	\$13,570,833
	60%	\$12,901,261	\$13,192,986	\$13,403,397	\$13,583,186	\$13,751,231	\$14,003,297	\$14,272,981	\$14,588,598	\$15,026,186
	70%	\$14,458,327	\$14,750,052	\$14,960,464	\$15,140,253	\$15,308,297	\$15,560,364	\$15,830,048	\$16,145,665	\$16,583,253
	80%	\$16,280,602	\$16,572,327	\$16,782,739	\$16,962,528	\$17,130,572	\$17,382,639	\$17,652,323	\$17,967,940	\$18,405,528
	90%	\$18,807,783	\$19,099,508	\$19,309,919	\$19,489,708	\$19,657,753	\$19,909,819	\$20,179,503	\$20,495,120	\$20,932,708

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Best "point" estimate of total rewards is \$12.3M

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But if stock, company performance are 10th %ile, is \$4.1M appropriate?

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Stock Performance	10%	\$4,084,033	\$4,375,758	\$4,586,170	\$4,765,959	\$4,934,003	\$5,186,070	\$5,455,754	\$5,771,371	\$6,208,959
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And if stock, company performance is 90th %ile, is \$20.9M enough?

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Or if company performs poorly, but stock takes off, is \$18.8M good?

Today, Focus is Expected Value – or Maybe a Range, Element by Element

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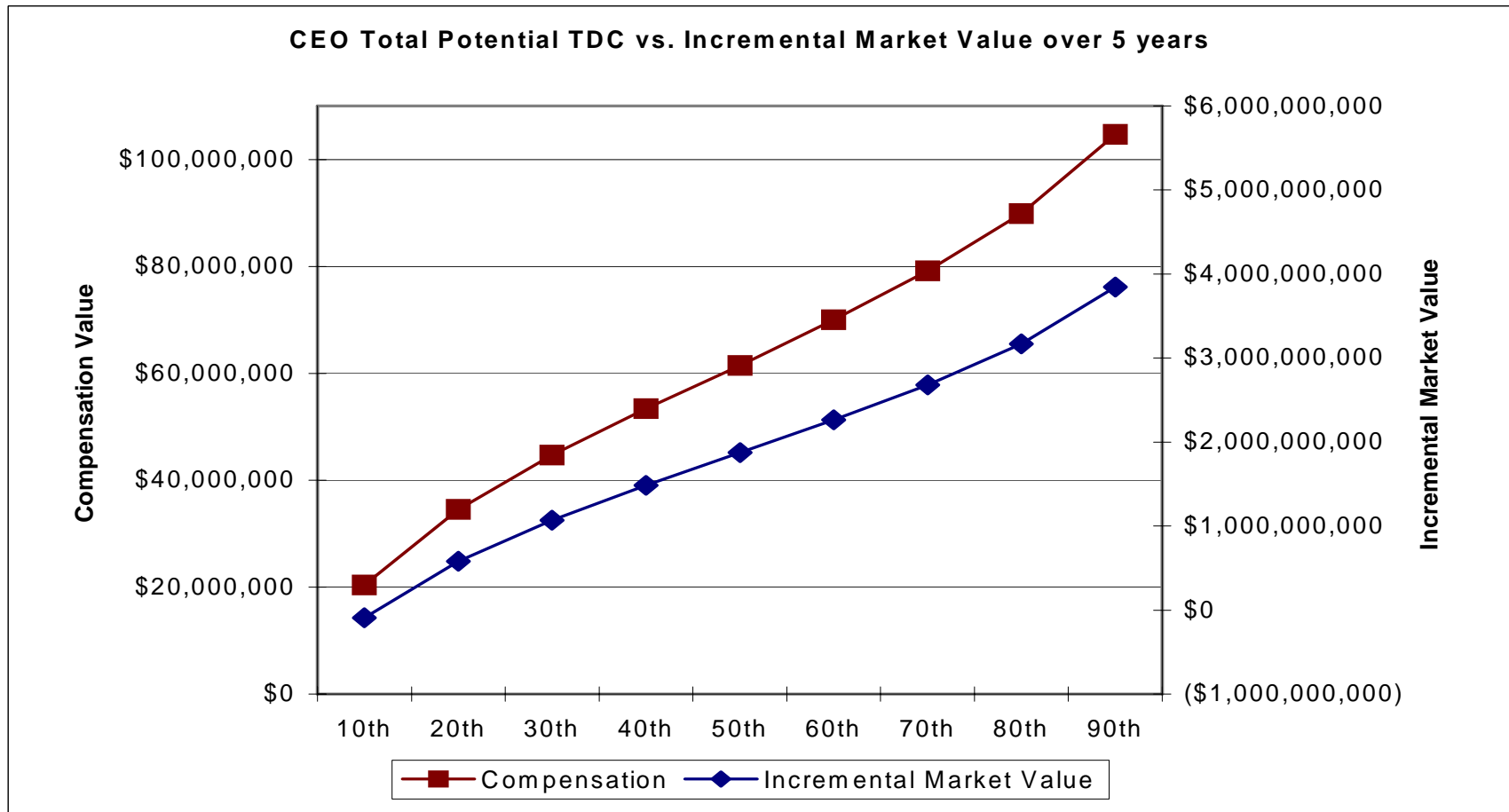
Today, Focus is Expected Value – or Maybe a Range, Element by Element

But the Focus Should be on the Range of Combined Outcomes, by Performance Level

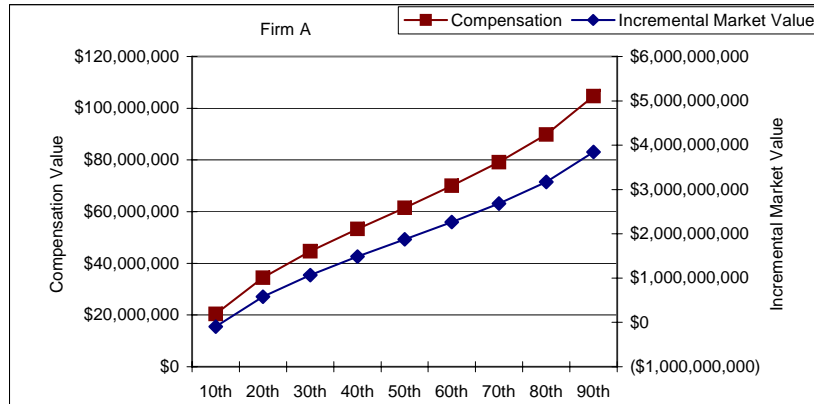
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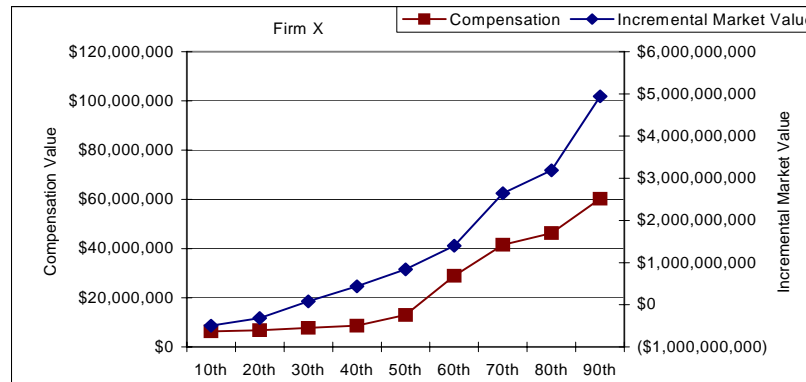
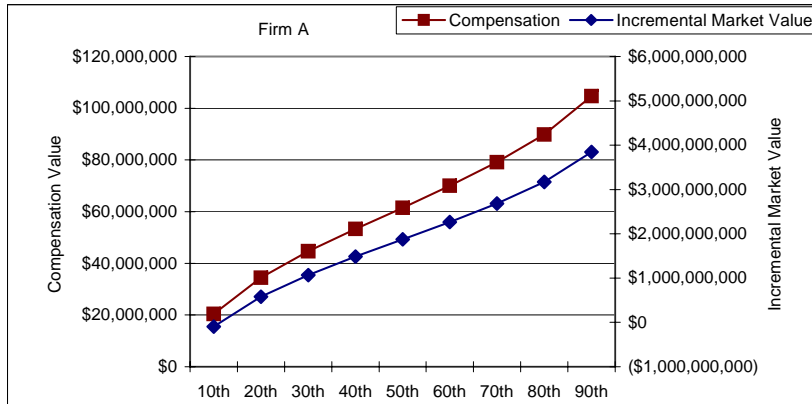
Pay vs. Performance



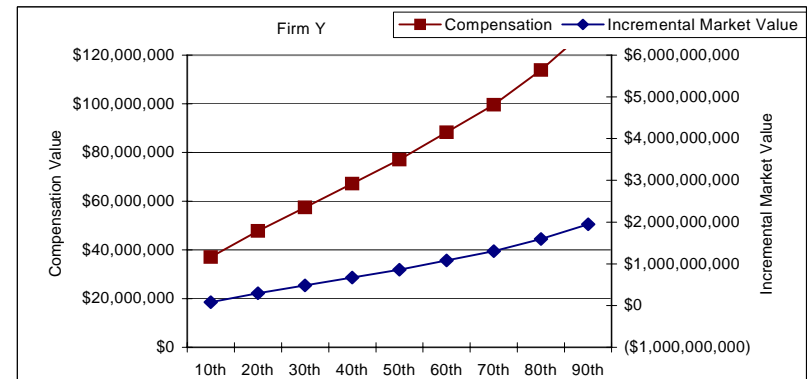
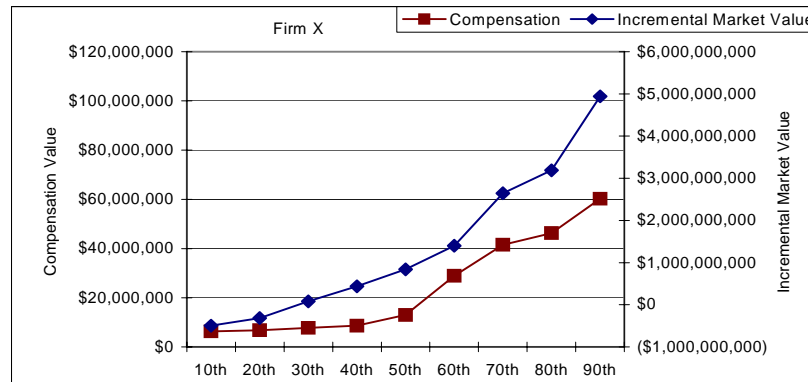
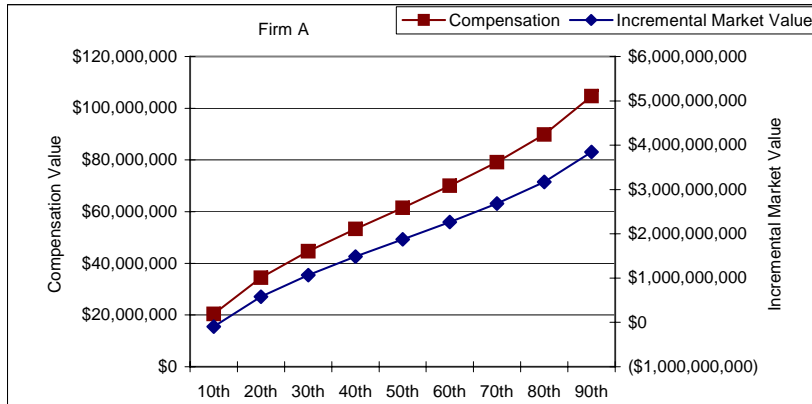
Comparing Three Profiles



Comparing Three Profiles



Comparing Three Profiles



■ So What Next

- **Committees Being Asked...**
 - Relationship between pay and performance?
 - How much is too much?

- **Dynamic Tally Sheets Provide Insight, Not Answers**

- **Changes Role from Data Display to Decision Tool**