

Talking Points: Accumulated Wealth Analysis

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Accumulated Wealth Tables Defined

- Analyses that look at past, present and future value generated by all company-sponsored rewards
 - Past equity grants
 - Future cash compensation
 - Future equity grants
 - Pension/defined contribution plans
- While approaches vary, desired outcome is the same
 - Understand the total wealth potential of all past and future compensation and benefit plans
- In essence, it represents a projection of what future proxy disclosures might look like under current plan designs

Accumulated Wealth Tables Examples

- Wealth accumulation analyses should start off by establishing a baseline for what is in place today
 - Primary focus is on equity and retirement benefits

Name	Wealth Accumulation Today (\$millions)					
	Total Cash Compensation ¹	Current Equity Holdings (\$M) ²	Value of Shares Sold Past 5 Years (\$M) ³	Future LTI Grants ⁴	Retirement Benefits ⁵	Total
Executive A	\$2.6	\$15.0	\$0.0	N/A	\$0.6	\$18.2
Executive B	\$1.6	\$7.0	\$3.0	N/A	\$0.3	\$11.9
Executive C	\$1.3	\$8.0	\$1.2	N/A	\$0.3	\$10.8
Executive D	\$1.0	\$5.0	\$0.5	N/A	\$0.1	\$6.6

(1) Equals current base salary plus 2006 target annual incentives.

(2) Current holdings includes vested and unvested stock options and restricted shares.

(3) Represents the realized value, before taxes, of any shares sold between 12/31/01 and 12/31/06

(4) Not applicable as shows wealth accumulation as of 12/31/06.

(5) Includes total balance of 401(k) and deferred compensation plans.

Accumulated Wealth Tables Examples (cont'd)

- Projections should then be made to determine what wealth accumulation will look like in the future
 - Suggests what proxy might show in five years (or any other point in time)

Name	Estimated Value at 12/31/11 (\$millions)							Total Value Using Final Equity Value	Total Value Using Incremental Equity Value
	Total Cash Compensation ¹	Current Equity Holdings in Total (\$M) ²	Increase in Value of Current Equity Holdings (\$M) ³	Value of Shares Sold as of 12/31/06 ⁴	Future LTI Grants ^{5,6}	Retirement Benefits ⁷			
Executive A	\$14.2	\$25.0	\$10.0	\$0.0	\$8.0	\$1.0	\$48.2	\$33.2	
Executive B	\$8.7	\$11.3	\$4.3	\$4.8	\$4.7	\$0.5	\$30.0	\$20.0	
Executive C	\$7.1	\$12.9	\$4.9	\$1.9	\$3.4	\$0.5	\$25.7	\$16.5	
Executive D	\$5.5	\$8.1	\$3.1	\$0.8	\$1.6	\$0.2	\$15.3	\$10.6	

(1) Equals the sum of base salary and 2006 target bonus based on current base salary and target annual incentive % grown at 3% over 5 years (does not include any additional interest).

(2) Current holdings includes vested and unvested stock options and restricted shares.

(3) Only includes the incremental growth in equity value from 12/31/06 to 12/31/11.

(4) Represents the realized value, before taxes, of any shares sold between 12/31/01 and 12/31/06, assuming subsequent growth in equity value.

(5) Assumes annual 3% per year growth in the expected value of LTI grants.

(6) Assumes 75% of the target share award vests and 40% of the vested shares are sold to pay taxes.

(7) Only includes employer-related balances. Assumes 3% annual growth in 401(k) and Deferred Compensation balances per year with ongoing employer contributions equal to those made in 2005. Represents total, not incremental, value.

Accumulated Wealth Tables Examples (cont'd)

- Ultimately, the incremental wealth creation for executives should be compared to that realized by shareholders

Name	Estimated Value at 12/31/11 (\$millions)				
	Total Future Wealth ¹	Incremental Future Wealth ²	Market Cap 5 Year Growth ³	Individual's Total Wealth Creation as a % of Shareholder Value Created ⁴	Individual's Incremental Wealth Creation as a % of Shareholder Value Created ⁵
Executive A	\$48.2	\$33.2		1.20%	0.83%
Executive B	\$30.0	\$20.0		0.75%	0.50%
Executive C	\$25.7	\$16.5	\$4,000.0	0.64%	0.41%
Executive D	\$15.3	\$10.6		0.38%	0.27%
Total	\$119.3	\$80.4		2.98%	2.01%

(1) Includes expected value of current equity holdings, future equity grants, retirement benefits and total cash compensation.

(2) Includes incremental growth in current equity holdings and expected value of future equity grants, retirement benefits and total cash compensation.

(3) Based on market cap as of 12/31/06 with a growth rate of 8% over 5 years (assuming no change in shares outstanding).

(4) Equals the individual's total future wealth expressed as a percentage of market cap growth over a 5-year period.

(5) Equals the individual's incremental future wealth expressed as a percentage of market cap growth over a 5-year period.

How the Accumulated Wealth Tables Have Evolved

- Inclusion of:
 - Future cash compensation
 - Assessment of total shareholder value creation, and sharing rate with executives
 - Dividends earned
 - Realized value of shares previously granted
- CD&A requirements may drive future evolution
 - Direct connection to annual compensation (i.e., was wealth accumulation considered in annual pay decisions)
 - Internal equity consideration

Common Issues with Accumulated Wealth Tables

- Treatment of past equity grants
- Validity and accuracy of future projections (e.g., equity grants, stock price appreciation)
- Role of employee-contributed funds (e.g., deferred compensation balances, defined contribution accounts)
- Linkage with shareholder value creation
- Interpretation of findings
 - Benchmarking?

How Employers Use the Accumulated Wealth Tables for Executive Pay Decisions

- Recent survey suggests significant amount of change
 - Over 90% of companies use tally sheets, often with some form of wealth accumulation analysis
 - Over 40% of directors say they have taken actions or plan to take actions in the following areas:
 - Overall pay/benefit levels
 - Severance benefits (normal severance and severance following a change of control)
 - Cost of benefits/perqs

How Employers Use the Accumulated Wealth Tables for Executive Pay Decisions (cont'd)

- However, practical experience suggests change has been more gradual
 - Change has been at the margin, eliminating outliers; mainstream practices remain largely unchanged
- Survey Source: 2006 Executive & Director Compensation Survey, Corporate Board Member Magazine

Application of the Accumulated Wealth Tables in the 2007 Proxy Disclosure

- No single area of focus; elements spread throughout the proxy:
 - Outstanding stock options
 - Other share plans
 - Beneficial ownership
 - Pension values
 - Deferred compensation/401(k) values
- Compensation Discussion & Analysis may be a focal point
 - Need to discuss how value of programs in total and in aggregate are considered in ongoing compensation discussions
 - Impact is likely to be felt over time

Going Forward with Accumulated Wealth Tables

- Will continue to evolve as companies gain experience with the issues and practices become more standardized
- Projections will be fine-tuned to make them more meaningful relative to future proxy disclosures
 - Stock performance
 - Share holdings
 - Expected tenure
- Treatment of past stock sales will be clarified
 - Defined period of time (e.g., past five years)
 - Current role only

Going Forward with Accumulated Wealth Tables (cont'd)

- Key question is will/how should plan designs and pay decisions evolve going forward in light of the analysis
- Actions to adopt
 - Review executive rewards holistically
 - Discuss appropriate actions in light of company-specific factors
 - Consider analysis in light of anticipated future disclosures
- Actions to avoid
 - Adopt arbitrary caps or limits
 - Rely on external benchmarks to determine reasonableness