

Trends in Executive Compensation

Tara Tays, Manager
Deloitte Consulting LLP

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————— **Trends in Executive Compensation** —————

Base Salary

2009 ⁽¹⁾

- Many companies reduced their 2009 merit budgets.
- Average pay raises officers and executives was 3.5%.
- A number of companies have adopted a salary freeze for officers and executives.
 - 39% froze base salaries
- Some companies in distressed industries have instituted a salary reduction for executives for 2009 in light of the challenges facing these organizations.
 - 5% reduced base salaries

2010 ⁽¹⁾

- Average pay raises for officers and executives are expected to be around 3.3%.

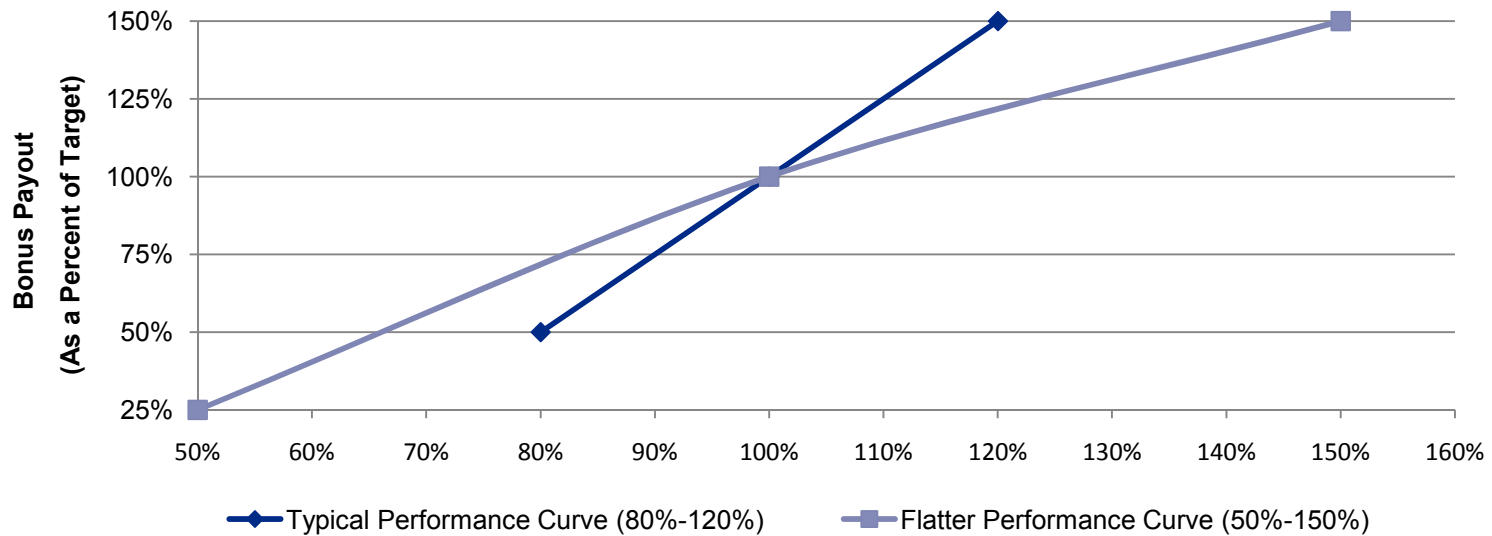
(1) Mercer's 2009/2010 U.S. Compensation Planning Report.

Payouts with Respect to 2008 Bonus Plans

- Many companies paid 2008 annual bonuses that were below target levels and well below 2007 payouts.
- Our experience over the last few months suggests that most companies strictly adhered to pre-established incentive formulae.
- Other methods that were used to determine 2008 bonus payouts included:
 - Committee discretion retained under the annual bonus plan to make adjustments.
 - Adjustments to the earnings calculations used to determine 2008 bonus payouts to exclude restructuring charges, unbudgeted cost increases, goodwill impairments and other special charges.
 - Discretionary bonuses to be used for key performers.
 - Restricted stock in lieu of discretionary cash bonuses in order to conserve cash and foster retention.

2009 Incentive Plan Design Strategies

- Modify performance targets but keep the same performance measures.
 - Example: Performance curve might be realigned with a flatter upside and downside opportunity.



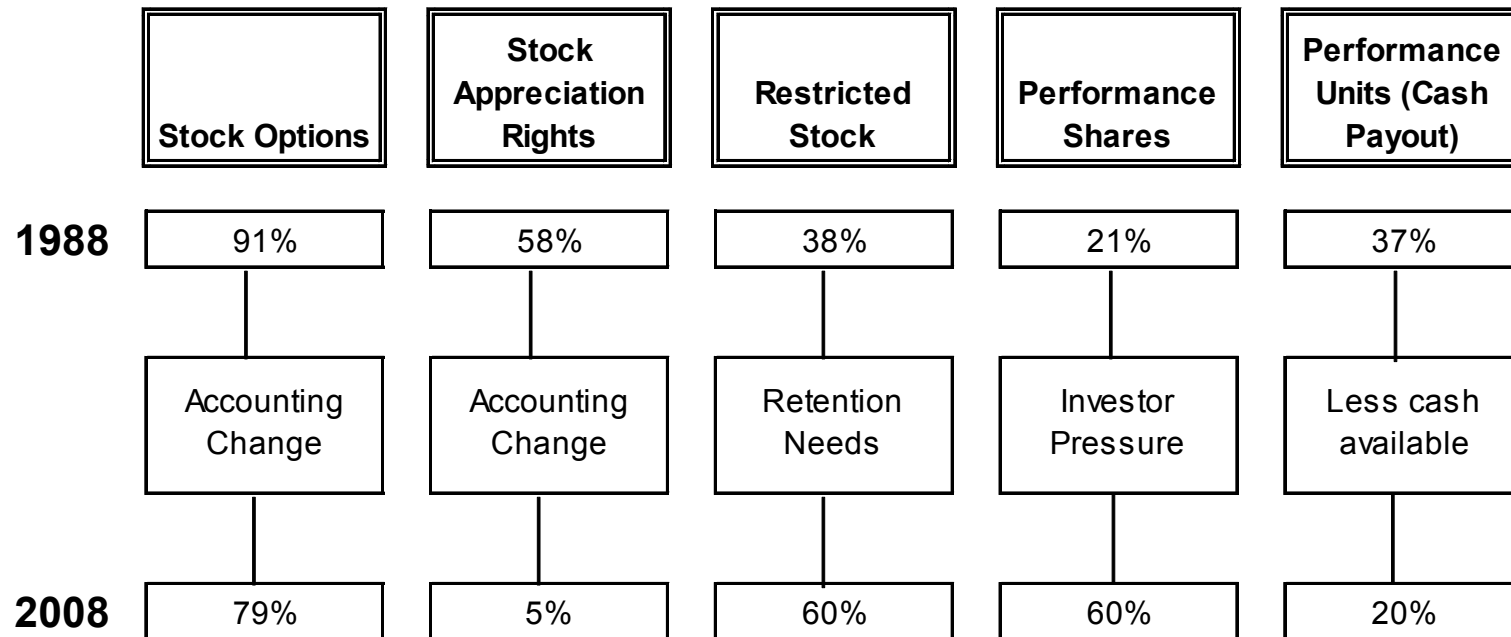
- Change the performance measures utilized.
 - Example: Shift from profit measures to strategic/operational/individual goals.

2009 Incentive Plan Design Strategies (cont.)

- Change the target bonus opportunity.
- Create a discretionary bonus pool based on corporate or divisional performance.
- Create quarterly or semi-annual performance metrics for incentive plan purposes.
- Utilize relative performance versus budgeted performance measures for future incentives.
- Obtain approval from the Compensation Committee of a list of extraordinary items, unanticipated or unbudgeted items (i.e., plant closing, oil price fluctuations, etc.) that can be used at year-end to determine performance payout.

History of Long-Term Incentive Awards

- Long-term incentive grant practices for the Top 250 largest U.S. companies between 1988 and 2008. ⁽¹⁾



(1) The Conference Board Webcasts, *Current Issues in Long-Term Incentive Design*, September 2008; Data provided by Frederic W. Cook

Long-Term Incentives - 2009 Awards

- Many companies reduced 2009 award opportunities.
- A recent study on the 191 largest companies in the S&P 500 found that 39% of companies made changes to their long-term incentive plans or granting practices. ⁽¹⁾ These changes included:
 - Shifting the LTI mix
 - Modifying LTI performance measures
 - Reducing LTI grant values
 - Lengthening the performance period
 - Introducing intermediate goals

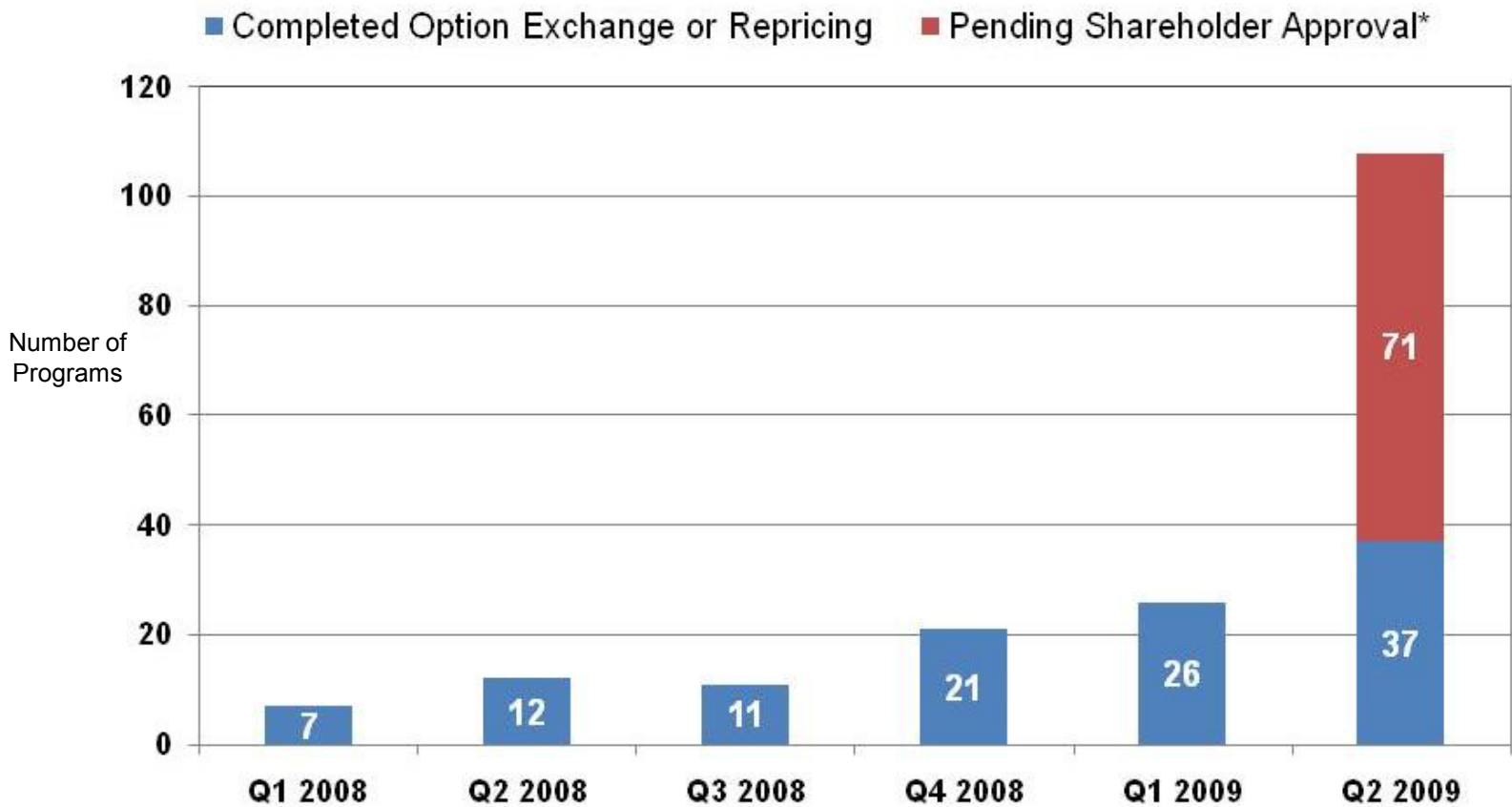
(1) James F. Reda & Associates *Executive Compensation Trends for 2009: Balancing Risk, Performance and Pay*, August 2009, based on 191 largest companies in the S&P 500.

Impact of 2009 Long-Term Incentive Awards on Dilution

- Alternatives for managing equity dilution include:
 - Granting the same number of shares awarded in the prior year
 - Changing the “mix” of awards and placing a greater emphasis on “full-value” awards (e.g., grant time-vested restricted stock instead of stock options, since fewer shares would be required to deliver a competitive opportunity)
 - Reducing participation levels
 - Moving to a cash-based incentive plan
- We expect to see a 10% to 30% decline in competitive long-term incentive grant values for 2009.

Underwater Stock Options

- In 2009, stock option exchange programs increased dramatically as detailed in the chart below:



Source: Equilar, June 2009

* Includes proposals going before shareholders in Q2 and Q3 2009 and plans which were approved but are not yet active.

————— **“Hot Topics” in Executive Compensation** —————

Risk and Compensation Plans

- The SEC, reinforcing recent Treasury and Administration pronouncements that excessive incentive-driven risk-taking was a contributing factor to the ongoing economic crisis, has proposed that the scope of the CD&A be expanded to include a discussion of a company's "*broader compensation policies and overall actual compensation practices for employees generally, including non-executive officers, if risks arising from those compensation policies or practices may have a material effect on the company.*"
- SEC registrants should conduct an assessment of whether their compensation plans and programs create material risk for the company.
 - A high-level overview of our recommended process is summarized on the next page.

Risk and Compensation Plans – Sample Approach



- Examine nature and characteristics of company and its businesses
 - Obtain inventory of incentive compensation plans, and identify key metrics and design features
 - Identify potential risks in compensation plans that could potentially be material to the company
- Where do business risk and incentive plan metrics intersect?
 - How can the incentive compensation system be “gamed”?
 - What is in place to mitigate those risks?
 - What internal controls are in place to mitigate risk?
 - What design features exist in the incentive plans to discourage excessive risk taking?
 - Are there incentive plan features or internal control enhancements that could be modified to further limit risk?
 - Do administrative processes have gaps that create material risks for the company from a compliance standpoint?
- Build risk reviews into the internal audit cycle with participation by both the Audit and Compensation Committees
 - Periodically seek independent review of risk review process and findings

Say-on-Pay

- Say-on-Pay, the annual nonbinding shareholder advisory vote on executive compensation, became a legal requirement for companies receiving TARP funds in 2009.
- On June 15, 2009, the Treasury reaffirmed the Say-on-Pay requirement for companies holding TARP funds without additional guidance on the execution of the vote, directing companies instead to the applicable SEC rule.
 - The SEC rule does not mandate specific language or any form of resolutions, but does require that the vote must be to approve the compensation of executives, as disclosed pursuant to the SEC compensation rules, including the Compensation Discussion and Analysis (“CD&A”), the compensation tables, and any related material.
- On July 16, 2009, the Treasury released proposed legislation to Congress, which would require **all public companies** to include a Say-on-Pay vote on executive compensation for the named executives disclosed in the proxy for any annual shareholder meeting held after December 15, 2009.
- On July 21, 2009, Rep. Barney Frank, Chairman of the House Financial Services Committee, introduced legislation in the House of Representatives that mandates Say-on-Pay for all publicly-traded companies.

Types of Say-on-Pay Proposals

- There are two types of Say-on-Pay votes being submitted to shareholders this proxy season:

Shareholder Say-on-Pay Proposals	These proposals request that a company provide shareholders with the right to vote on the company's compensation policies and practices
Management Say-on-Pay Proposals	These proposals represent the "thumbs-up / thumbs-down" vote on the prior year's compensation policies and practices as reflected in the CD&A and accompanying tables

- Both types of proposals are non-binding, thus Boards are not required to take any action in the event a majority of shareholders approve or disapprove the proposal.

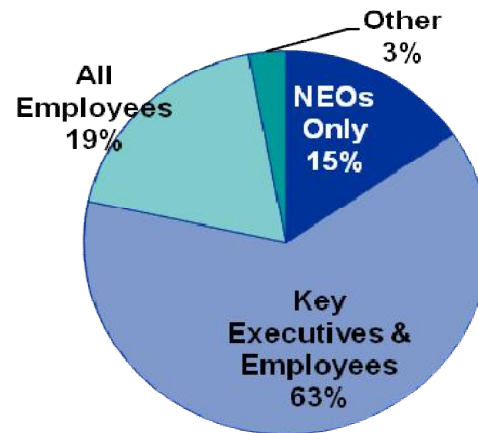
The Pros and Cons of Say-on-Pay

- The following table summarizes common arguments used in support or opposition to providing shareholders with a Say-on-Pay:

In Favor	Opposed
<ul style="list-style-type: none">■ Empowers Compensation Committees■ Improves board accountability■ Encourages constructive dialogue with shareholders and allows shareholder to provide direct feedback to the Board of Directors■ Bolsters shareholder influence over pay practices■ Improves design of pay plans■ Tightens pay-for-performance■ Combats pay for failure■ Prevents egregious pay■ Encourages Compensation Committees to further scrutinize pay packages to ensure that they are in the best interests of the company's shareholders■ Raises U.S. to international best practice■ Better than the current alternative for expressing disapproval of compensation practices (i.e., withholding votes from Compensation Committee members)	<ul style="list-style-type: none">■ Potentially disruptive and divisive■ Caters to special interest groups■ Defeats purpose of having Board elected by shareholders■ Undermines Board's ability to exercise judgment■ Executive pay is very complex and shareholders will not have all the facts to evaluate pay decisions■ Shareholders may misinterpret the real level of compensation provided by equity awards due to the use of grant date values not realizable values■ Provides only directional guidance not specific shareholder concerns■ Overkill given major enhancements to the SEC proxy disclosure rules■ Used as a 'wedge issue' by activist shareholder groups seeking more dramatic changes, such as workforce unionization or strict environmental policies

Clawback or Recoupment Provisions

- The SEC proxy rules require disclosure of “company policies regarding the adjustment or recovery of awards or payments if the relevant company performance measures upon which they are based are restated or otherwise adjusted within the 12-month period following the public release of financial information.”
- This rule change started a trend that has resulted in a significant number of companies adopting claw back provisions.
 - A study prepared by The Corporate Library in 2008 found that 34% of S&P 500 companies had adopted a claw back provision.⁽¹⁾
 - 65% of Fortune 100 companies have adopted a clawback provision, which is a significant increase from 18% in 2006. The chart below illustrates employees who are subject to the clawback provision.⁽²⁾



(1) The Corporate Library’s study of the top 2,500 U.S. and Canadian companies published in July 2008.

(2) Equilar’s 2008 Clawback Policy Report.

Change-in-Control Excise Tax Gross-Ups

- Several companies have recently revised their employment and severance agreements in order to eliminate or curtail excise tax gross-up provisions. Some of these companies include:

AT&T	Brunswick Corp	Ciena	Colgate-Palmolive	EMC	Exelon Corp.
Fortune Brands	MetLife	Sara-Lee Corp.	Snap-On	UnitedHealth Group	

- Equilar's *2009 CEO Severance and CIC Report* found that amongst Fortune 100 companies, there has been a decline in the prevalence of full excise tax gross-ups for CEO since 2006 as illustrated in the table below:

Year	Full Gross-Up	Modified Cap	Tax Cutback
2006	50.8%	6.8%	1.7%
2008	42.5%	11.0%	6.8%



———— **Proposed Changes to Proxy Disclosure Rules** ————

Proposed Changes to Proxy Disclosure Rules

- On July 10, 2009, the SEC proposed revisions to the proxy disclosure rules in order to improve executive compensation disclosure and allow investors to make informed voting and investment decisions. With respect to compensation, the proposed amendments would require companies to:
 - Add a new section in the CD&A to discuss how a company’s overall compensation policies may create incentives for excessive risk-taking and how that risk is managed.
 - Modify the reporting of stock and option awards in the Summary Compensation Table and Director Compensation Table to reflect the grant-date value of stock and option awards.
- Other amendments include:
 - Disclosure about the role of the Board of Directors in risk management
 - Disclosure about the company’s leadership structure
 - Expanded disclosure about the qualifications of each director and director nominee to serve on the Board of Directors
 - Expanded disclosure about the potential for compensation consultant conflicts of interest
 - More timely disclosure of annual and special meeting voting results
- The proposed amendments are subject to a comment period ending September 15, 2009.



—— Proposed Legislation on Executive Compensation ——

Proposed Legislation on Executive Compensation

- In recent months, corporate governance reform has gained momentum. The table below summarizes the most noteworthy bills and proposed reforms contained in each bill:

Proposed Reforms	Investor Protection Act of 2009	Corporate and Financial Institution Compensation Fairness Act of 2009	Shareholder Empowerment Act	Shareholder Bill of Rights Act	Excessive Pay Shareholder Approval Act and Excessive Pay Capped Deduction Act
	(U.S. Treasury)	(Rep. Barney Frank)	(Rep. Gary Peters)	(Sen. Charles Schumer)	(Sen. Dick Durbin)
Annual Elections				✓	
Majority Voting			✓	✓	
Proxy Access			✓	✓	
Independent Chairs			✓	✓	
Shareholder Say-on-Pay	✓	✓	✓	✓	✓
Shareholder Say on Golden Parachutes		✓		✓	
Compensation Committee Independence	✓	✓			
Compensation Consultant Independence		✓	✓		
Clawbacks			✓		
No Severance for Poor Performance			✓		
Improved Disclosure of Performance Goals			✓		
Incentive plan limitations to minimize risk (for financial services companies)		✓			
Compensation Ratio Limit					✓



———— Preliminary Results of the 2009 Proxy Season ————

Preliminary Results of the 2009 Proxy Season

- The RiskMetrics Group tracks the number of governance shareholder proposals submitted during each proxy season. The table below details proposals submitted by shareholders with regard to executive pay issues during the 2009 proxy season (as of September 1, 2009), and compares the support received for the proposals in 2009 and the prior year.

	2009			2008	
	Total Number of Proposals	# Results Available	Average Support	# Results Available	Average Support
Shareholder Say on Pay	74	56	46.0%	72	41.6%
Management Say on Pay	144	128	88.0%	8	91.4%
Vote on Golden Parachutes	7	3	35.4%	6	56.2%
Anti-Gross-Ups Policy	2	2	50.5%	4	45.3%
Vote on Executive Death Benefits	12	10	40.5%	N/A	N/A
Retention Period for Stock Awards	14	12	26.2%	N/A	N/A
Establish Bonus Banks	5	4	26.6%	N/A	N/A

(1) Based on RiskMetrics Group's September 1, 2009 Scorecard of proxy proposals.

Contact Information

Tara Tays, Manager – Human Capital/Total Rewards

Phone - 312-486-3264

E-mail – ttays@deloitte.com

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