

Draft 1, January 26, 2012

NACD New England Chapter Event Highlights

Breakfast Event – January 10, 2012

Key Board Issues for 2012

Event Overview

The year 2012 is off to a challenging start for U.S. big business. Occupy Wall Street has convinced most Americans that they belong to the 99%, and not the 1% that reaps the rewards of private enterprise. Both political parties are turning to anti-corporate rhetoric as the presidential election looms. Social media is emerging with shocking speed as a powerful force in shaping public and consumer opinion about the behavior of companies in the marketplace and in society.

At the NACD New England Chapter's January 2012 Breakfast Event, a panel comprised of four board leaders of New England-based companies shared their thoughts on the corporate governance implications of these and other business issues that are gaining importance as 2012 unfolds. Topics included the executive retention impacts of say-on-pay and proxy advisory firm activity, defending corporate reputation from social media threats, and preparing for increased shareholder activism.

About the Panel:

Gary DiCamillo is a board member of the Whirlpool Corporation, Pella Corporation and The Sheridan Group, Inc. He serves on the boards of trustees at Rensselaer Polytechnic Institute, the Museum of Science in Boston and the Massachusetts Business Roundtable. Mr. DiCamillo is a 1975 graduate of Harvard Business School, where he earned an MBA. He also holds a Bachelor of Science degree in Chemical Engineering from Rensselaer Polytechnic Institute.

Karen Kaplan is president of Hill Holliday, the 17th largest advertising agency in the US. Ms. Kaplan joined the firm in 1982 as receptionist. Today, she is a driving force behind Hill Holliday's growth to more than \$1 billion in annual billings. Ms. Kaplan is a trustee of Fidelity Investments and a director of DSM (dba Delta Dental, Doral and DentaQuest). Ms. Kaplan previously served as a director of ADVO from 2003 to 2007 and as a director of Tweeter Home Entertainment Group from 2006 to 2007, until the companies were acquired.

John Mahoney has served as vice chairman and chief financial officer of Staples since January 2006. Prior to that, he served as executive vice president, chief administrative officer and chief financial officer since October 1997, and as executive vice president and chief financial officer from September 1996, when he first joined Staples, to October 1997.

John O'Brien, the panel's discussion leader, is the retired chief executive officer of Allmerica Financial Corporation. Prior to holding that position, he was the president of Fidelity Management & Research. He serves as the non-executive chairman of Cabot Corporation, the lead director of The TJX Companies, Inc., and a director of LKQ Corporation and BlackRock Mutual Funds. He is also the chairman of the

Woods Hole Oceanographic Institute. Mr. O'Brien was also the 2010 Honoree for the NACD NE Director of the Year Award for Leadership in Public Corporate Governance.

Panel Discussion Highlights:

John O'Brien kicked off the discussion by describing recent developments in the business environment that could lead in 2012 to greater shareholder interest in say-on-pay initiatives, compared with last year. Among them are the lack of growth in equity prices, sharply higher CEO pay, and impending new guidelines from Institutional Shareholder Services (ISS).

Responding to O'Brien's remarks, John Mahoney described the steps taken by the board of Staples that successfully overcame an ISS decision to recommend against the company's management say-on-pay proposal. He pointed to the challenges associated with securing a positive shareholder say-on-pay vote under the influence of proxy advisory firms such as ISS, while still retaining executives in a competitive environment for top talent. Mahoney described how Staples' shareholder outreach program gathers input that enables the board to produce annual proxy statements that are more effective in addressing investor concerns.

Karen Kaplan challenged the meeting participants to become "modern directors" who understand the critical importance of consumer-driven corporate reputation which, with the rise of social media, is becoming more critical to corporate performance than traditional factors such as product perceptions. She urged directors not only to monitor their company's marketplace reputation by paying close attention to social and mainstream media, but also to be prepared to take action to prevent misperceptions from going viral. Kaplan spoke to the importance of "recruiting directors with natural connections to Main Street and not just Wall Street who understand what people are feeling and thinking in real time."

Gary DiCamillo discussed the recent increase in shareholder activism by commenting, "the 99% is watching us." He urged directors "not to put their heads in the sand" and, instead, guard against the short-term focus that dissidents typically bring to the board room, describing how activists' priorities can be detrimental to shareholder value over the long term. DiCamillo detailed a variety of tactics used by activists to influence proxy voting and board composition and governance decisionmaking, and described strategies that boards can deploy to successfully defend against these tactics.

Q&A Session Highlights:

Q: *"Executive compensation has become a more important factor in board dynamics than in the past, with compensation committees now typically involved in intense year-round discussions. Who are we trying to please – is it the proxy advisory firms or the shareholders?"*

A: The panelists responded with a wide-ranging discussion about the expanding responsibilities of the compensation committee with John Mahoney commenting, "The compensation committee chair has replaced the chair of the audit committee as the worst job on the board." There was agreement that compensation committee members need to invest significant time in informing themselves about the

pros and cons of the growing range of available tools for measuring executive performance and providing appropriate compensation.

Q: *“What steps can be taken to motivate directors to improve their own performance and, with it, the performance of the entire board?”*

A: Responding to what seems to be a hot-button issue for their companies, the panelists emphasized the importance of director evaluation and explained how their boards implement it. Generally dismissing term limits as a less than optimal substitute for evaluation of director performance, they discussed the pros and cons of formal and informal approaches. There was consensus that, no matter what the format, providing directors with ongoing, objective feedback about their strengths and weaknesses serves to improve overall board performance.

Q: *“The percentage of GDP that goes to the top 1% just keeps getting higher and higher, and rising executive compensation is the main reason for this. How do you think boards should address this distortion and the resulting economic inequality we face today?”*

A: The panelists responded by offering a variety of perspectives. In defense of today’s executive compensation practices, they pointed to the employee retention problems that could ensue if compensation were reduced, and discussed the added value that outstanding corporate leaders often deliver to their shareholders. On the other hand, there were critical comments about the tools available for measuring executive performance and the tendency for executive compensation to rise in lockstep, due to the use of peer or comparable company metrics.

Q: *“Given your emphasis on the importance of listening to disparate constituencies such as consumers and shareholder activists, how is it possible to account for these divergent viewpoints while still reaching a constructive consensus at the board level?”*

A: The panelists offered a number of solutions, all based on the premise that boards make better decisions when they reflect diverse constituent inputs and interests. They emphasized the important role played by the board chair in managing inbound intelligence. They discussed the use of new decision-making tactics, such as executive sessions, and the emergence of lead directors in helping boards work through difficult problems. They again stressed the value of director diversity in enabling the board to listen more insightfully to different outside opinions.

Q: *“Granted, everyone is in favor of more transparency, but it seems that corporate disclosure is running amok. Companies file so many more documents, and these documents have become so dense with information, that it is only creating more confusion – especially for the 99%. How can this be addressed?”*

A: Agreeing in general with the premise of the question, the consensus among the panelists was that complex disclosure is unavoidable in a complex regulatory and business environment. They discussed the failure of past initiatives such as Plain English to successfully address the problem and pointed to the potential in newer communications tools such as infographics for making it easier to visualize and digest complex information.

Wrap-Up

NACD New England Chapter President Bill Earon closed the January 10th session by reminding everyone about NACD New England's sixth annual Director of the Year Awards program, scheduled for March 29, 2012, as well as the chapter's next breakfast event: "The Board Meets the Court," scheduled for February 14, 2012 at the Newton Marriott Hotel.