

ON POINT

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PM&P on Compensation Planning: Looking Ahead to Executive Pay Practices in 2011

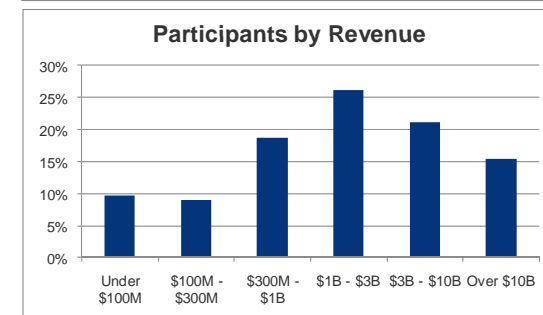
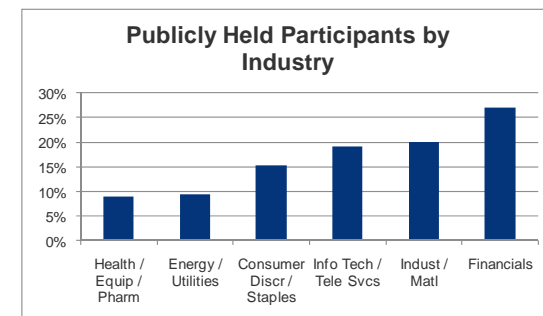
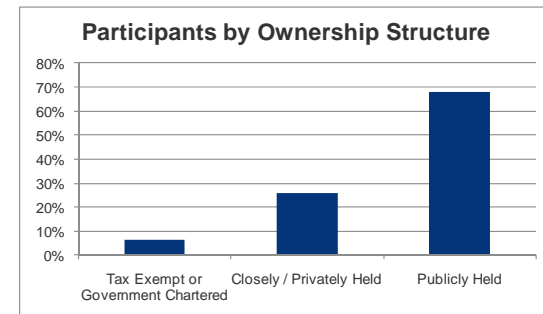
Executive Summary

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Introduction

- This survey series was designed to arm executive pay decision-makers with information on how others are responding to the latest changes in the executive pay environment
- The 2011 survey was conducted online in August and September of 2010
- The 279 participants range from Fortune 50 members to not-for-profits and emerging high-growth companies
- The complete results are available for purchase at www.pearlmeier.com
- If you would like to discuss any aspect of these findings further, please contact Jim Heim at jim.heim@pearlmeier.com or (508) 630-1502



Summary of Executive Pay Decision-Making Environment

The latest developments influencing executive pay decision-making include...

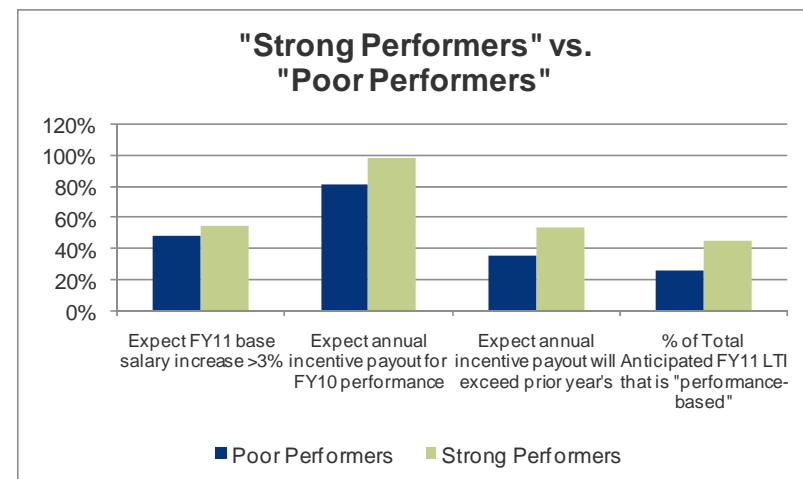
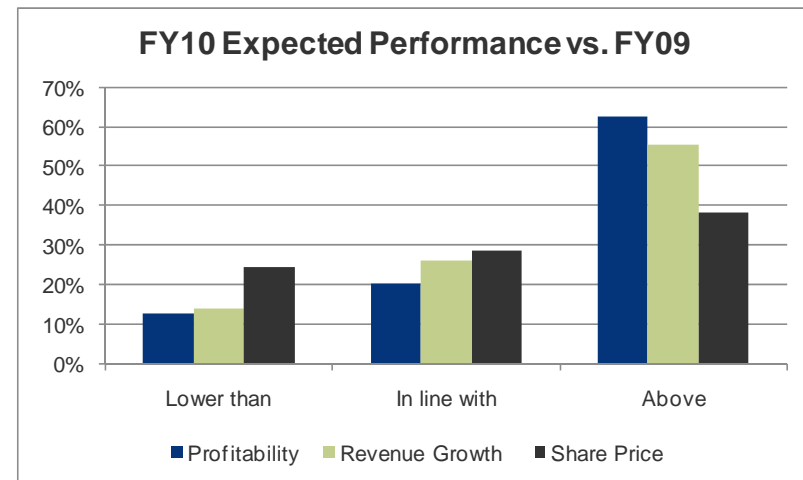
- Economic and market turmoil is dissipating, but not yet “back to normal”
 - Perceived importance of goal setting and metric selection for incentive plans is increasing, resulting in a more rigorous review process
 - As various sectors recover, “winners” and “losers” have begun to emerge. As the “winners” more aggressively pursue proven executive talent, companies are re-focusing on retention
- Executive pay decision-making process continues to grow more transparent
 - Dodd-Frank is the latest in a series of events bolstering SEC disclosure requirements
 - Investors demand more information relating to links between pay and performance, as well as detailed explanation of how compensation program risk is managed
- Expanding list of “poor pay practices” from various institutional shareholders and proxy advisory firms
 - Downward pressure on executive perquisite programs, severance arrangements
 - Pay “irritants” have greater consequence in a Say on Pay environment

...our survey results preview how companies will respond to these developments

Company Performance and Impact on Decision-Making

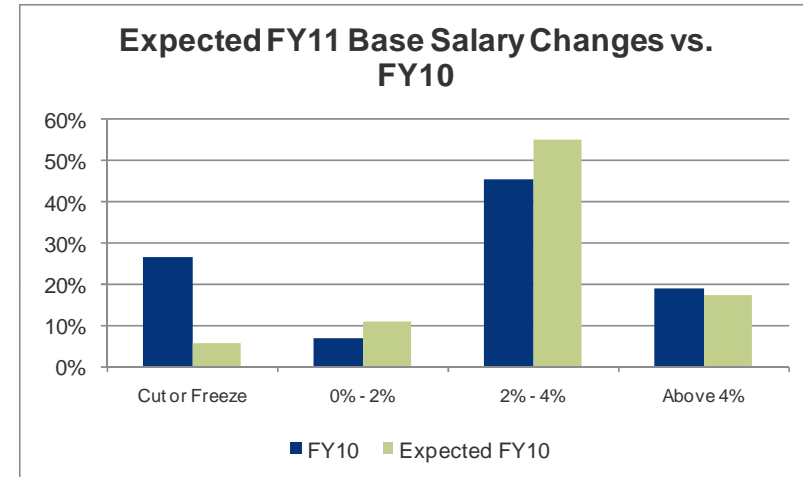
- Company performance is up year-over-year across virtually all industry categories, and most participants indicate they are meeting or exceeding their own internal budget goals
- “Strong Performers” (those participations who expect FY10 performance will be “above peers” with respect to a combination of profitability, revenue growth and share price) differ from “Poor Performers” in their pay decisions

See complete results for breakdowns by industry and how strong & poor performers differ in expected LTI award values, perquisite program modifications, and severance provisions



Executive Base Salary Changes

- Participants are coming off a year (FY10) in which 27% froze or decreased executive base salaries
- Anticipated FY11 increases are modest:
 - 6% anticipate a salary freeze or decrease
 - The majority anticipate an increase in the 2% - 4% range, below the historic 4% average of the past two decades

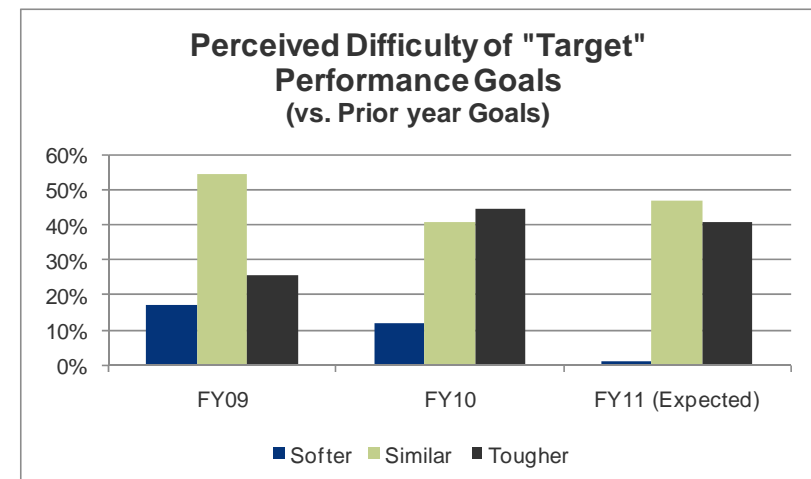
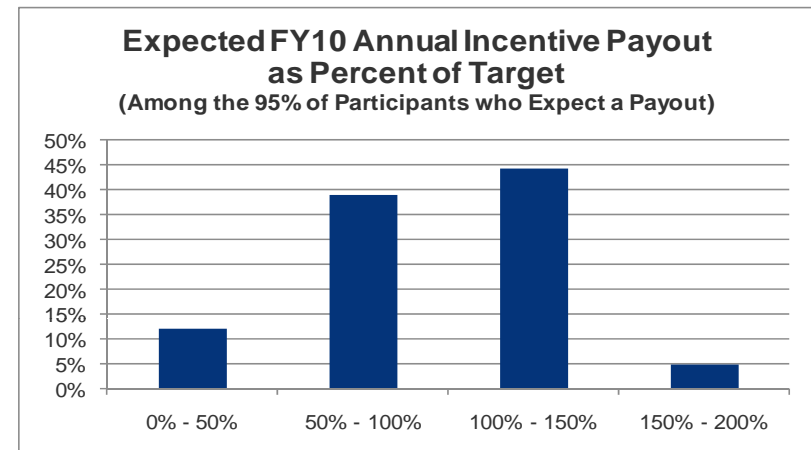


See complete results for breakdowns by industry and performance, and how each demographic breakdown anticipates increases for FY11 will compare to FY10

Modifications to Annual Incentive Program Design and Payout Levels

- 18% of participants did not pay an annual incentive for FY09 performance, and the majority of those who do expect a payment for FY10 expect to pay within 25% of “target” payout levels
- The number of participants who indicate that “target” performance goals as compared to the prior year are lower (i.e., a softer performance hurdle) is trending down, while the number of participants indicating that “target” performance goals are tougher trends up

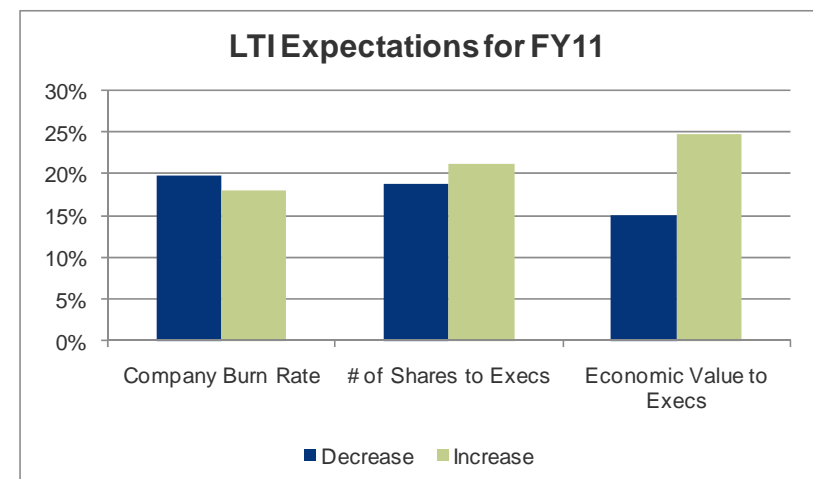
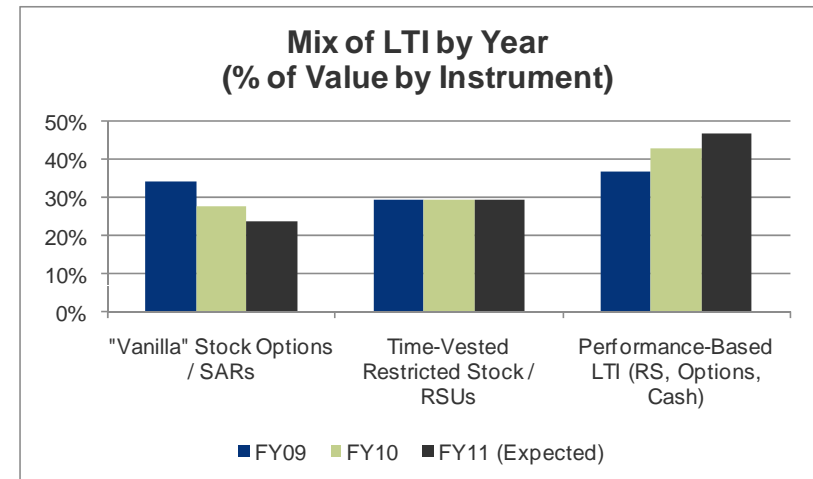
See complete results to understand how discretion is used within annual incentive programs; changing performance measures; the prevalence of “relative” vs. “absolute” performance measures; how performance payout zones are narrowing or widening over time; and the prevalence of annual vs. semi-annual vs. quarterly payout and measurement schedules



Modifications to Long-Term Incentive Program Design and Award Levels

- There has been a trend away from plain vanilla stock options and SARs and towards awards that feature some form of performance measurement
- In the aggregate, participants expected relatively little change year-over-year with respect to LTI practices

See complete results for additional details on how companies are modifying performance measures for LTI, trends with respect to ownership guidelines and "hold to retirement provisions", and modifications to vesting standards over time

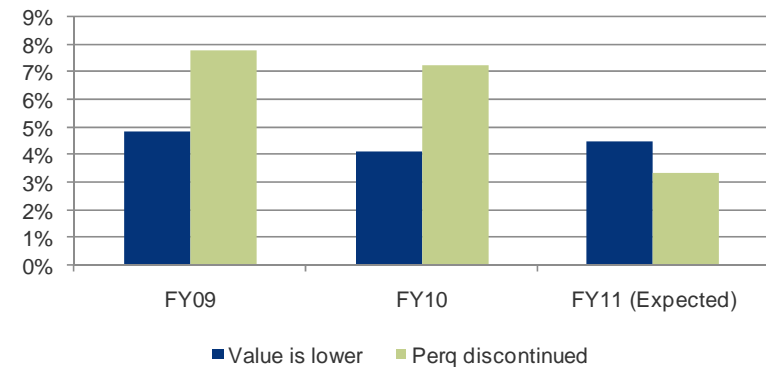


Perquisites

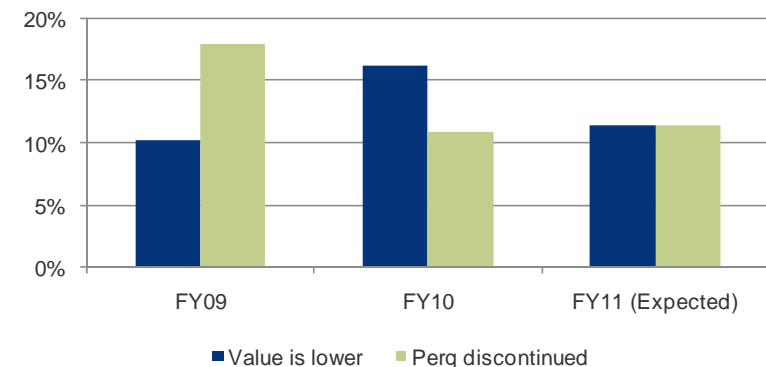
- The prevalence of traditional executive perquisites continues to wane
 - Perquisites are a small percentage of total executive pay value, but a significant driver of shareholder and employee dissatisfaction
 - Commentators have suggested elimination of perquisites that generally lack a legitimate business purpose and that other employees must cover on their own, such as a car allowance and/or company car, personal use of a corporate aircraft, and tax preparation services

See complete results for additional details on changing prevalence of financial planning service reimbursement, legal services reimbursement, supplemental health & welfare benefit programs, protection on loss on home sale in relocations, and tax gross-ups for perquisites

Car Allowance / Company Car Trends
(vs. Prior Year)

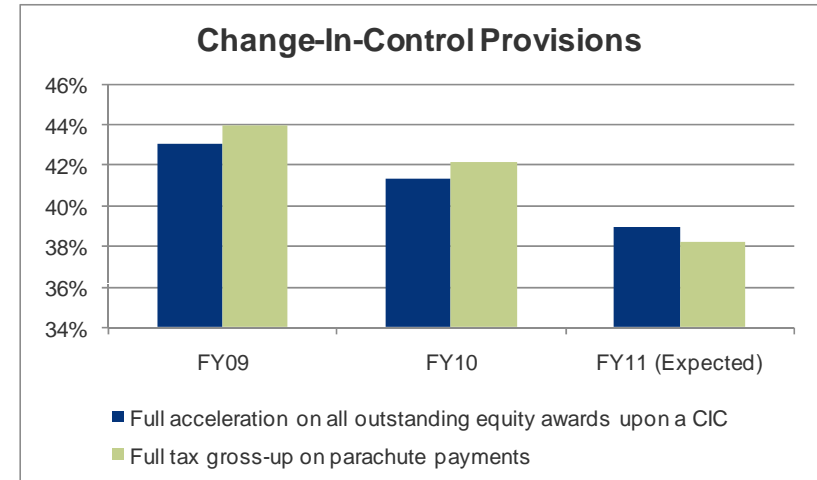


Personal Use of Corporate Aircraft
(vs. Prior Year)



Severance and Change-in-Control Payments

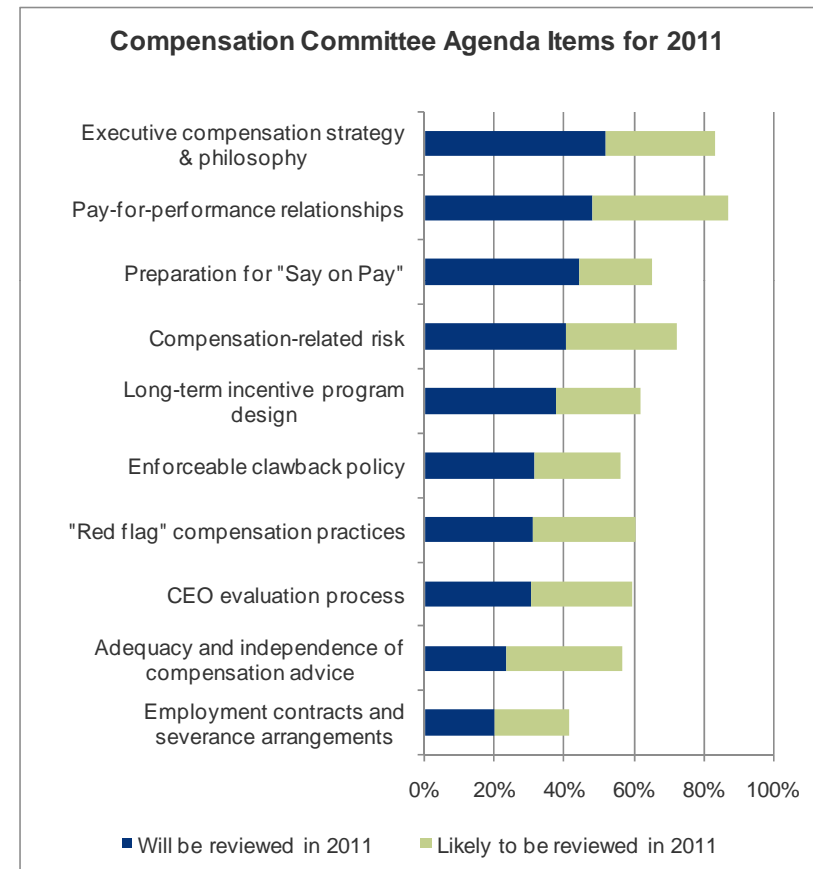
- The three-year trend is clearly toward declining benefits
 - For cash severance upon terminations that do not follow a change-in-control, 8% curtailed provisions in FY09, an additional 7% curtailed in FY10, and 7% anticipate doing so in FY11
 - The percentage of participants providing full acceleration of all outstanding equity awards upon a change-in-control (single-trigger) has fallen slowly but steadily, as has the percentage who provide a full gross-up (for excise tax attributable to parachute payments)



See complete results for breakdowns by industry and performance and the prevalence of various provisions for equity acceleration (full / at Board's discretion / partial / double trigger) and excise tax (full gross-up / modified / best after-tax / scale back) provisions.

Compensation Committee Agenda Items for 2011

- We asked participants to indicate whether various items from our 2010 “Top 10 Compensation Committee Agenda Items” Trends & Issues report will be reviewed in 2011
- For our detailed commentary relating to each of these agenda items , please visit www.pearlmeier.com/2010top10



About Pearl Meyer & Partners

For more than 20 years, PM&P has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges through the development of programs that align rewards with business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles and San Jose.

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