

Quick-Take Study: Long-Term Incentive Trends

**CEO Long-Term Incentive Opportunity:
2008 Through 2010**

EXEQUITY

Independent Board and
Management Advisors



Overview and Background

As an update to our *Quick-Take Study: Long-Term Incentive Trends* released in March, Exequity LLP included CEO long-term incentive (LTI) awards from 2008 to identify the trends in LTIs over the last three years.

To gauge the impact of the global economic recession on LTI opportunity, the following LTI analysis was conducted to determine the change in LTI award opportunity relative to stock price change during this highly volatile period:

- Examined insider filings (Form 4) for the Chief Executive Officers (CEOs) from *Fortune* 500 companies to provide an early look at the percent change in LTI opportunity since 2008.
- 116 companies that granted normal cycle awards during November to April (2008, 2009, and 2010) were included in the analysis.
- Total LTI values include stock option (Black-Scholes pricing model) and restricted stock (grant-date fair value) awards.
- Form 4 filings for grants of performance-based awards are made only upon settlement of the award and were excluded from the analysis.
- Our experience suggests that there was no discernable material shift into or out of performance plans and that complete performance plan information is unlikely to materially change the conclusions herein.
- Where an adequate sample size was available, percent change in LTI opportunity was also analyzed by industry (GICS economic sector).

To determine the impact on LTI opportunity from 2009 to 2010, percent change in LTI opportunity was analyzed relative to three stock price categories (grant to grant):

- Greater than 60% increase;
- Less than 60% increase and greater than 20% increase; and
- Less than 20% increase.

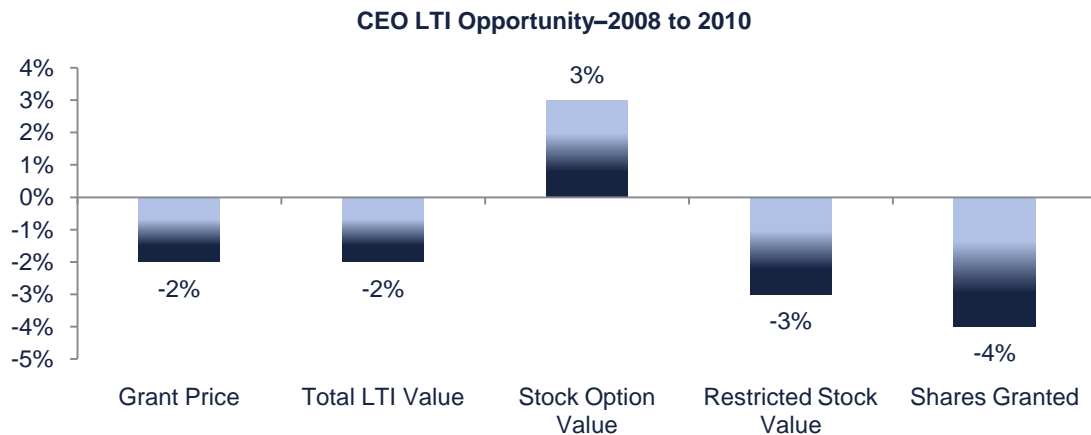
Finally, an in-the-money option analysis was performed to calculate the impact of high grant prices in 2008 and low grant prices in 2009 on in-the-money stock option award values. Additional assumptions and methodology details are provided in the Appendix.

Key Findings

LTI Opportunity (2008–2010)

After a 16% decline in LTI opportunity from 2008 to 2009, 2010 CEO LTI award opportunity has returned to 2008 levels. As expected, the change in LTI opportunity was highly correlated with the change in grant price.

- At the median, total LTI award value decreased 2% relative to a 2% reduction in grant price from 2008 to 2010.
- A slight drop in restricted stock value (-3%) was offset by a slight increase in stock option value (+3%).
- The drop in grant price (-2%) and total LTI value (-2%) over the period resulted in a decline in the number of shares granted (-4%).

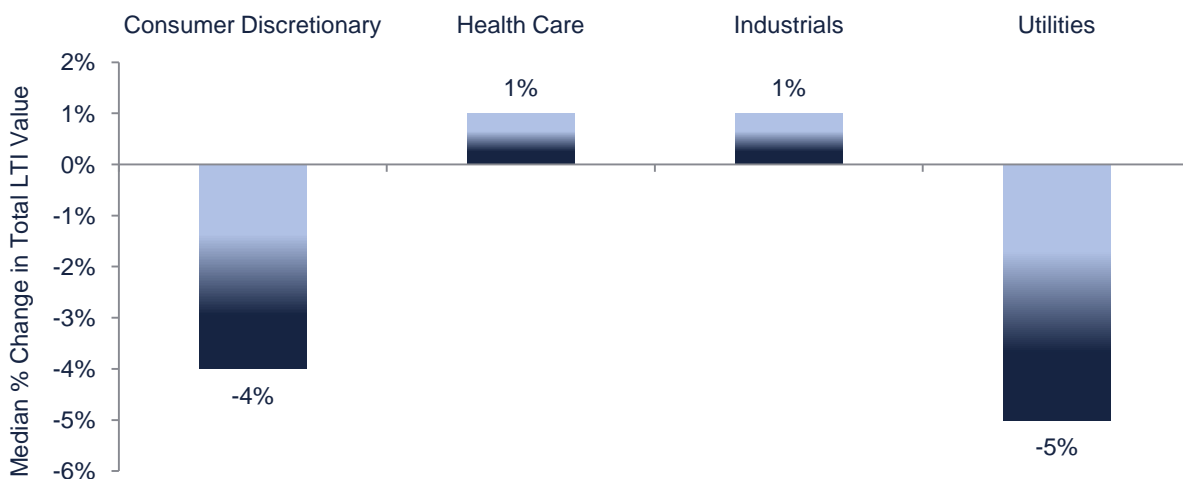


LTI Opportunity by Industry (2008–2010)

To identify variations in LTI award levels by industry, CEO Form 4 filings were analyzed based on GICS economic sector for companies granting LTI awards during November through April (2008, 2009, and 2010). As found in the broader analysis, change in LTI opportunity was highly correlated with grant price change.

- In general, industries that experienced the largest decline in LTI value from 2008 to 2009 had the largest increase from 2009 to 2010.
- The consumer discretionary industry had the largest decrease in total LTI value (-4%) relative to grant price decline (-1%).
- Industrials had the largest increase in total LTI value (1%) relative to grant price decline (-4%).

Industry	Companies	Median Percent Change In:				
		Total LTI Value	Restricted Stock Value	Stock Option Value	Grant Price	Number of Shares
Consumer Discretionary	16	-4%	-2%	-6%	-1%	-8%
Health Care	10	1%	-9%	6%	1%	3%
Industrials	26	1%	0%	1%	-4%	-1%
Utilities	12	-5%	-10%	-5%	-10%	-13%



LTI Opportunity by Stock Price Change (2009 vs. 2010)

As expected, the companies with the greatest increase in stock price (grant to grant) experienced the largest increase in total LTI opportunity when analyzing the change in CEO LTI opportunity from 2009 to 2010.

- Companies with the largest appreciation in stock price, greater than 60% increase from grant to grant, granted 24% more in total LTI value in 2010 than in 2009.

- The change in total LTI value (+19%) was close to half the change in grant price when excluding the companies with largest and smallest changes in grant price (>60 and <20 grant price change).

— When analyzing companies with a -50% to -30% stock price decline from 2008 to 2009, we found a 16% decline in median total LTI value relative to a 38% decline in stock price.

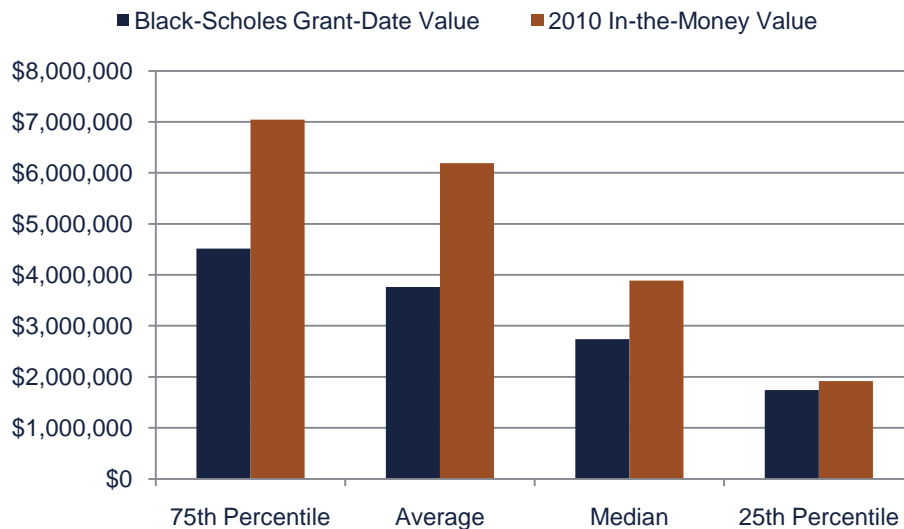
- Companies with approximately the same grant price (+1%) as the prior year granted the same total LTI value in both 2009 and 2010.

% Stock Price Increase	Median Percent Change In:				
	Grant Price	Total LTI Value	Restricted Stock Value	Stock Option Value	Number of Shares
> 60	91%	24%	22%	38%	-45%
20 to 60	39%	19%	12%	25%	-13%
< 20	1%	0%	4%	-6%	-6%

In-the-Money Option Values

Due to the dramatic decline of stock prices in October 2008 and subsequent increase for 2010, it has become increasingly important to monitor the in-the-money option values for 2008 and 2009 stock option awards. To help understand the impact of the market volatility on stock option award values, Exequity analyzed 2008 and 2009 stock option grants to determine the in-the-money value of the option awards as of April 1, 2010.

- 64% of the stock options awarded near the top of the market in 2008 (November–April) remain underwater.
 - In total, 2010 in-the-money stock option value was 74% greater than the 2009 Black-Scholes grant-date value (30% greater as of January 4, 2010).
- 93% of 2009 option awards were in-the-money (89% in-the-money as of January 4, 2010).
- 2010 in-the-money option values were greater than the 2009 Black-Scholes grant-date value for 78% of the stock option awards granted in 2009.



Appendix: Study Methodology

Companies were excluded from this analysis for the following reasons:

- CEO turnover.
- Companies that do not grant annual LTI awards (e.g., large grants every three years, quarterly grants).
- A change in compensation mix that prevented the accurate valuation of LTI awards (e.g., a change in mix that did not disclose performance plan targets).
- Financial service companies with impacts to LTI grant philosophy (e.g., TARP restrictions).

Stock options were valued individually with the Black-Scholes option pricing model using company-specific stock price inputs (i.e., grant price, dividend yield, volatility).



If you have any questions about this **Quick-Take Study**, or would like to perform a custom peer group Form 4 analysis, please contact Jeff Pullen ((847) 996-3967 or Jeff.Pullen@exqty.com) or any of the following:

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ProxEASE™ PARACHUTE MODELER

Satisfy your proxy disclosure requirements at a dramatically lower cost

The proxy disclosure rules mandate comprehensive disclosure of payments that would have to be made to each Named Executive Officer upon a termination of employment prior to or after a change-in-control. The ProxEASE™ Parachute Modeler is the only Web-based modeler that automates the golden parachute excise tax calculation process. The tool applies some of the most complex calculations in a simple and intuitive way to determine whether any “golden parachute” excise tax would be due.

- Comprehensive, flexible, user-friendly tool in a question-and-answer format.
- Allows for all types of compensation vehicles to be included in the modeling.
- Allows for the use of reasonable compensation positions to reduce excise taxes potentially owed.
- Most cost-effective method for completing the calculations (“top 5” parachute calculations can be run for \$5,500 total, versus more typical fees of \$20,000–\$30,000).

WEB-BASED EXCEL-LIKE DATA INPUT

EXEQUITY ProxEASE™ Webtool - Patent Pending

280G : Change in Control - Test 280G

Questions About Prior Taxable Compensation

These questions derive the safe harbor amount that can be paid under IRC Section 280G without triggering excise tax liability. You will need W-2 information for each individual's prior five tax years to complete this section.

	8. 2001	8. 2002	8. 2003	8. 2004	8. 2005	9a. Date of hire if after 1/1/2001. (M/D/YYYY)	9b. Recurring	9c. Non-Recurring
Bill	1,600,000	1,500,000	1,600,000	1,500,000	1,600,000			
Will	700,000	650,000	750,000	650,000	750,000			
Jill			650,000	750,000	650,000	4/15/2003	430,000	60,000

8. Please enter the individual's taxable compensation for the prior 5 years identified (i.e., Box 1 of the W-2)? If the individual was not employed at any point during a specified year, please leave the field blank.

9. If the individual was hired after January 1, 2001, please enter the following:

9a. Date of hire

9b. The portion of the W-2 number for the year of hire that reflects recurring payments for the initial calendar year of employment, e.g., base salary (Click here for a calculate to assist in finding the recurring payments.)

9c. The portion of the W-2 number for the year of hire that reflects nonrecurring payments for the initial calendar year of employment, e.g., sign-on bonus and/or relocation expenses. (Click here for a calculate to assist in finding the recurring payments.)

Note, if the individual was not employed prior to 12/31/2005, you should complete columns 9a, 9b, and 9c and leave all other columns blank. The model assumes that the individual was employed by the Company only during the period from the start date through December 31, 2006. If any of the individuals

General/Assumptions | **Prior W-2s** | Severance | Vesting of Unvested Awards | Award Forfeiture due to Restrictive Covenant Violation | Tim

EXCEL OUTPUT

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Acme Corporation												
2	Actual Payments Summary												
3		Name	Severance	Annual Bonus	Time Vested S/O Spread Value	Time Vested RS/RSU Value	Time Vested Cash Value	Performance Vested S/O Spread Value	Performance Vested RS/RSU Value	Performance Vested Cash Value	Welfare Benefit Value	Incremental Pension*	Reti Medi Ben
4													
5		Davis	\$2,358,130	\$393,022	\$3,546,853	\$5,320,279	\$0	\$0	\$7,093,705	\$0	\$44,282	\$153,185	\$87,1
6		Johnson	\$1,534,909	\$255,818	\$2,164,015	\$3,246,023	\$0	\$0	\$4,328,031	\$0	\$43,582	\$75,283	\$C
7		Smith	\$1,056,202	\$176,034	\$1,343,475	\$2,015,213	\$300,000	\$0	\$2,686,951	\$0	\$45,862	\$943,354	\$C
8		Doe	\$935,100	\$155,850	\$1,089,853	\$1,634,780	\$0	\$0	\$2,179,707	\$0	\$41,358	\$34,946	\$C
9		Jones	\$732,198	\$122,033	\$979,289	\$1,468,933	\$0	\$0	\$1,958,577	\$0	\$40,947	\$51,039	\$C
10													

Payments | Parachutes | Excise Tax | Excise Treatment 1 | Excise Treatment 2 | General | W-2 | Severance | Time

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