The Conference Board

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EXEQUITY

Independent Board and Management Advisors

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Questions Compensation Committee Chairs Are Asking

Common Themes

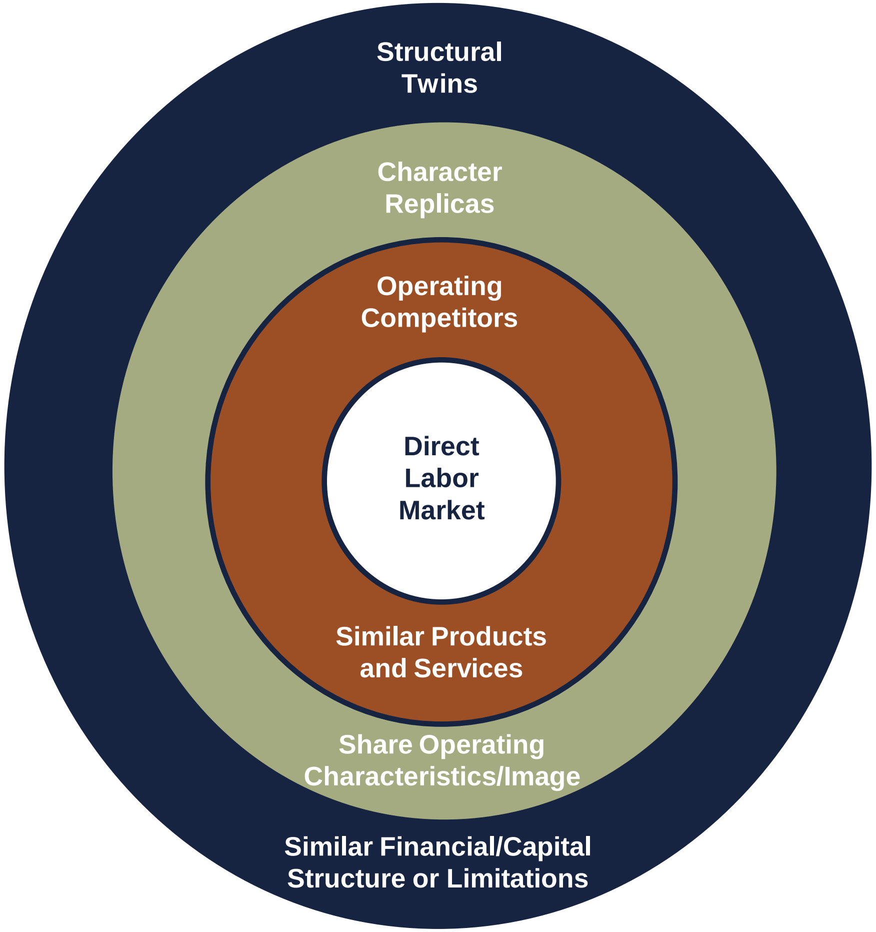
- Do we have the right peer group?
- How relevant is trailing benchmark data during tumultuous times?
- How can we set performance goals amid the current economic uncertainty/volatility?
- Do our plans pay for performance? How is this best measured?
- How do our programs compare to “best practices” as defined by institutional voting advisors?
- Do our plans encourage excessive risk? How do we evaluate this?
- How will pending legislation/regulation impact executive pay?

Peer Groups

Concerns	Observations
How often should we revisit?	Annually. May be minor review if little has changed. Thorough review every 2–3 years.
How big should the group be?	Ideally, large enough to withstand expected industry group volatility (consolidations, bankruptcies, etc.). If not, core group may need to be supplemented to provide validating reference points.
Should we use multiple groups? How important is a tight industry focus?	Start with known peers; evaluate peers of peers; evaluate specific and expanded GICS codes, industry analyst reports, etc. Consider multiple sources: ▪ Core group ▪ Expanded group ▪ General industry group
How important is company size in peer group construction?	Large size outliers can undermine the credibility of the group. Consider initial screening filters of 1/3 to 3 times company revenue size. Ideally, the group's measures of central tendency will approximate your company's size.
How important is consistency with other groups? ▪ Performance benchmarks ▪ Relative performance plan companies	Some overlap should occur, but total consistency is not required; executive labor market may differ from performance peers.

Peer Groups

Selection Framework



Sources for Peer Companies

- GICS codes
- Analyst reports
- Peers of peers

Scope Filters

- Revenue
- Market cap
- Employee count
- Net income
- Industry-specific metrics

Goal Setting

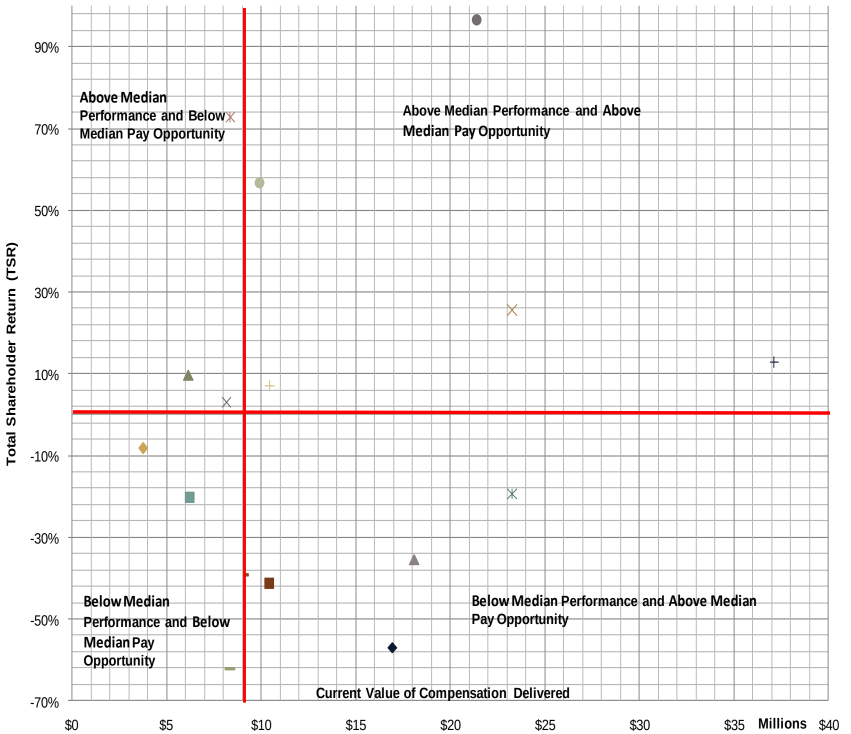
Concerns	Observations
How do we set goals for multi-year performance plans in this environment?	▪ Experiments with shorter performance periods; annual plans with banking features; average of annual periods. ▪ Limited prevalence of quarterly or semiannual measurement in bonus plans. ▪ Relative performance vs. absolute goals.
How do we account for performance volatility?	Revisit payout slope; flatten payout line; provide lower threshold; introduce multiple metrics.
Exclusions: what's not counted when determining final financial results?	Continued reluctance to move toward a pure GAAP standard. Common exclusions include: goodwill impairments, gains or losses from sale of business, commodities or FX impact, lawsuits, other "one-time" events.
How prominent should individual goals be?	Limited to none for CEO; bonus should be squarely tied to overall company performance. Individual goals often viewed as a "safety net" feature at companies where financial metrics haven't paid out. Qualitative factors have increased, however, given difficulty associated with setting financial goals.
Should discretion be used? If so, how?	Most committees prefer a formulaic approach to a discretionary one. However, poor business conditions have led to more instances of positive discretion in recent years.

Pay for Performance

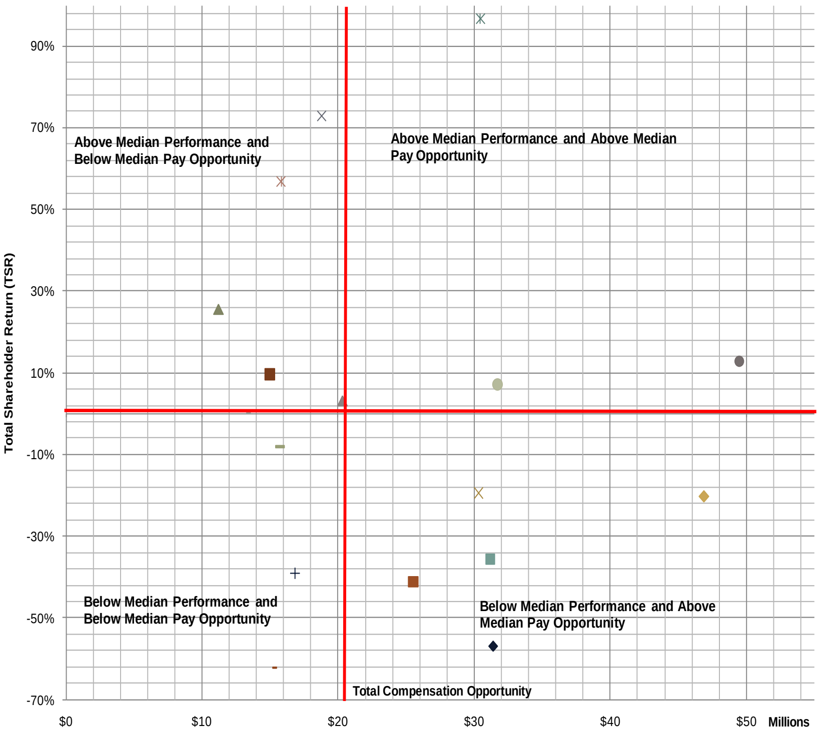
Concerns	Observations
How do we ensure that our programs reward for performance?	Check pay mix; evaluate the percentage of total pay that varies with results; model pay at various stock prices and bonus plan payouts to see total pay sensitivity.
Does anything other than TSR matter when evaluating pay for performance?	Probably not. There is a perceived external disconnect when payouts occur for results that do not translate into shareholder gains. Absolute and relative TSR should be considered.
Over what time period should pay for performance be measured?	Annual periods too limited and can be influenced by many factors. Consider 3- to 5-year views.
How should we define “pay” when measuring pay for performance?	No “right” answer. Consider evaluating both pay opportunity and realizable pay over the period.
How do we stack up against RMG’s pay-for-performance test?	▪ RMG conducts a year-over-year pay “opportunity” test. Increased CEO pay opportunity (regardless of whether realized or not) can put a company at risk to fail this test. ▪ Implications for companies making grants early in the year (without knowing performance outcomes). ▪ Implications for 2010 vs. 2009 pay comparisons as many equity awards in 2010 will be more valuable per RMG’s methodology than those made in 2009.

Pay for Performance

Realizable Pay



Pay Opportunity



The charts above plot both the current value of compensation delivered, and the total pay opportunity awarded, over a 5-year period against TSR.

Benchmarking—Long-Term Incentive Grant Methodology

Concerns	Observations
How credible is market data this year given that trailing data may not have been representative of "desired" or future award levels? ▪ Award values influenced by stock price at grant, burn rate constraints, and share availability issues.	▪ Somewhat reduced reliance on market data; award sizes often driven by dilution and cash constraints. ▪ More emphasis on measuring the gain potential of awards at various stock price assumptions. ▪ Use of tally sheets to understand total equity position, especially whether prior awards have value or continue to be underwater.
Does recent data reflect a new "steady state" or a temporary reaction to the economic crisis?	▪ Reduced award values are likely a temporary reaction to the constraints listed above. ▪ Preliminary Exequity research on year-over-year Form 4 analysis suggests a 10%–15% increase in CEO long-term incentive grant date values for 2010 when compared to 2009 levels. ▪ Movement back toward pre-crash grant value targets. ▪ Changes to award mix (e.g., shift away from options toward restricted stock and performance plans) may be more lasting.

Long-Term Incentive Grant Methodology

CEO Equity Award Size—2010 vs. 2009*

% Stock Price Increase	Companies	Median Percent Change In: Grant Price	Total LTI Value	Restricted Stock Value	Stock Option Value	Number of Shares
> 60	34	101%	26%	39%	10%	-45%
20 to 60	32	36%	19%	12%	24%	-13%
< 20	33	-1%	-3%	0%	-4%	-8%

** Exequity's Quick-Take Study: Long-Term Incentive Trends, March 15, 2010.*

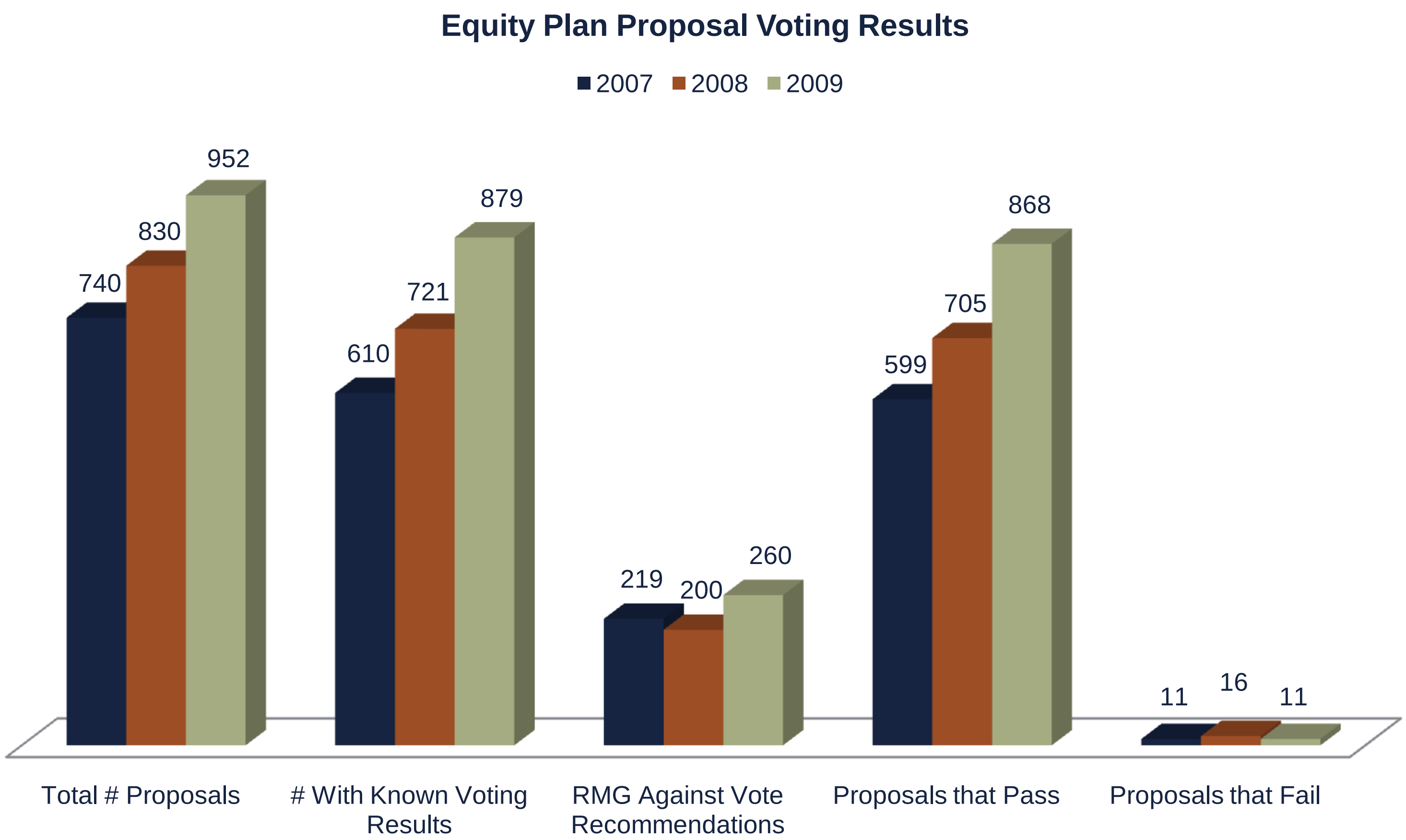
S&P 500 Index—January 2008–March 2010

Shareholder Advisory Services

Concerns	Observations
Is the influence of these groups waxing or waning?	The elimination of broker discretionary voting could shift power to institutional brokers and their advisors; actual voting outcomes, however, suggest that influence is limited.
What could result in a “withhold” vote recommendation for the compensation committee?	Per RMG guidelines, a pay-for-performance disconnect, problematic pay practices, or poor shareholder communications and responsiveness.
How likely are we to get shareholder approval on our equity plan if RMG recommends a “no” vote?	Of the 879 equity plan proposals in 2009 with known voting outcomes, RMG recommended against 260 (~30%). Only 11 of those proposals failed. 868 or 98.7% of proposals passed.
Will burn rate caps be coming up?	Probably. Caps for 2010 based on 2008 grant sizes, and most companies granted more shares in 2009 than in 2008.
How will the new GRId scores be used?	Absolute score among four categories with three levels of outcome: high, medium, or low levels of concern. GRId outcomes will not be used for proxy voting recommendations.

Shareholder Advisory Services

RMG Support May Not Be Determinative



*Data from ISS' Voting Analytics for Russell 3000 companies covering proposals to Approve / Amend Omnibus Plan and Approve / Amend Stock Option Plan

Shareholder Advisory Services: Problematic Pay Practices

"Major"

- Multi-year guarantees for salary increases, non-performance-based bonuses, and equity compensation
- Including additional years of service that result in significant additional benefits, without sufficient justification, or including long-term equity awards in the pension calculation
- Perquisites for former and/or retired executives, and extraordinary relocation benefits (including home buyouts) for current executives
- Change-in-control payments exceeding 3 x times base salary and target bonus
- Change-in-control payments without job loss or substantial diminution of duties ("single triggers")
- New or materially amended agreements that provide for "modified single triggers"
- New or materially amended agreements that provide for an excise tax gross-up (including "modified gross-ups")
- Tax reimbursements related to executive perquisites or other payments such as personal use of corporate aircraft, executive life insurance, bonus, etc.
- Dividends or dividend equivalents paid on unvested performance shares or units
- Executives using company stock in hedging activities, such as "cashless" collars, forward sales, equity swaps, or other similar arrangements
- Repricing or replacing of underwater stock options/stock appreciation rights without prior shareholder approval (including cash buyouts and voluntary surrender/subsequent regrant of underwater options)

"Minor"

- Excessive severance and/or change-in-control provisions
  - Payments upon an executive's termination in connection with performance failure
  - Liberal change-in-control definition in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring
- Overly generous perquisites, which may include, but are not limited to, the following:
  - Personal use of corporate aircraft
  - Personal security systems maintenance and/or installation
  - Car allowances
  - Executive life insurance
- Internal pay disparity-excessive differential between CEO total pay and that of next highest-paid named executive officer
- Voluntary surrender of underwater stock options by executive officers
  - May be viewed as an indirect repricing/exchange program especially if those cancelled options are returned to the equity plan, as they can be regranted to executive officers at a lower exercise price, and/or executives subsequently receive unscheduled grants in the future
- Other pay practices deemed problematic but not covered in any of the above categories

Change in Control

Concerns	Observations
Should we make changes to our existing plans? If so, should we make changes only prospectively?	Many companies are making changes to programs, primarily driven by external pressure. There is a tendency toward grandfathering existing participants with legacy benefits.
Should we move to a double-trigger equity vesting standard?	Increasing trend, consistent with spirit of change-in-control benefit—bridge benefit in event of **job loss** following a change in control.
Should we eliminate gross-ups?	Biggest lightning rod associated with change in control. Trend toward elimination of gross-up with a "better of" approach put in as a replacement.
Should we reduce cash severance pay multiples?	Not much evidence of multiples being reduced. New programs, however, are likely to have more conservative cash multiples.
Are there shareholder-friendly ways to provide change-in-control benefits?	▪ Performance-based multiples. ▪ Cash severance limited by equity gains. ▪ Reduced benefits for "soft" good reason.

Risk Assessment

Concerns	Observations
What does the company need to do?	Establish a process for reviewing compensation policies to ensure that programs do not have a material adverse effect on the company.
Who should conduct the review?	Tends to be a collaborative effort between company and the committee's independent consultant; company providing detail on broad-based incentive programs and outside consultant reviewing those findings and independently evaluating executive programs.
What do we have to disclose?	No disclosure required if policies are not likely to have a material adverse effect; however: ▪ SEC has encouraged explanation of evaluation process undertaken. ▪ RMG also suggests disclosure of process along with risk mitigation features.

Risk Assessment

Concerns	Observations
What are risk mitigating features?	▪ Governance-related ➢ Split chair/CEO roles ➢ Clawbacks ➢ Ownership guidelines ➢ Holding requirements ➢ Consultant independence ➢ Committee approval of executive pay matters ➢ Board approval of transactions (e.g., M&A activity, dividends, share repurchases, etc.) ▪ Design-related ➢ Banking plans ➢ Capped incentives ➢ Vehicle mix ➢ Vesting periods ➢ Multiple metrics

Legislative Developments

Concerns	Observations
What are the most relevant pieces of legislation that impact executive pay?	▪ H.R. 4173, Wall Street Reform and Corporate Protection Act of 2009 ▪ Senator Dodd's Bill, Restoring American Financial Stability Act of 2010
How are the bills similar?	▪ Mandatory advisory vote on executive compensation, proxy access, independence standards
How are the bills different?	▪ House bill ➢ Mandatory advisory vote on golden parachutes ▪ Senate bill ➢ Clawbacks ➢ Pay-for-performance disclosure ➢ CEO to average worker pay ratio ➢ Majority voting for director elections

Say on Pay

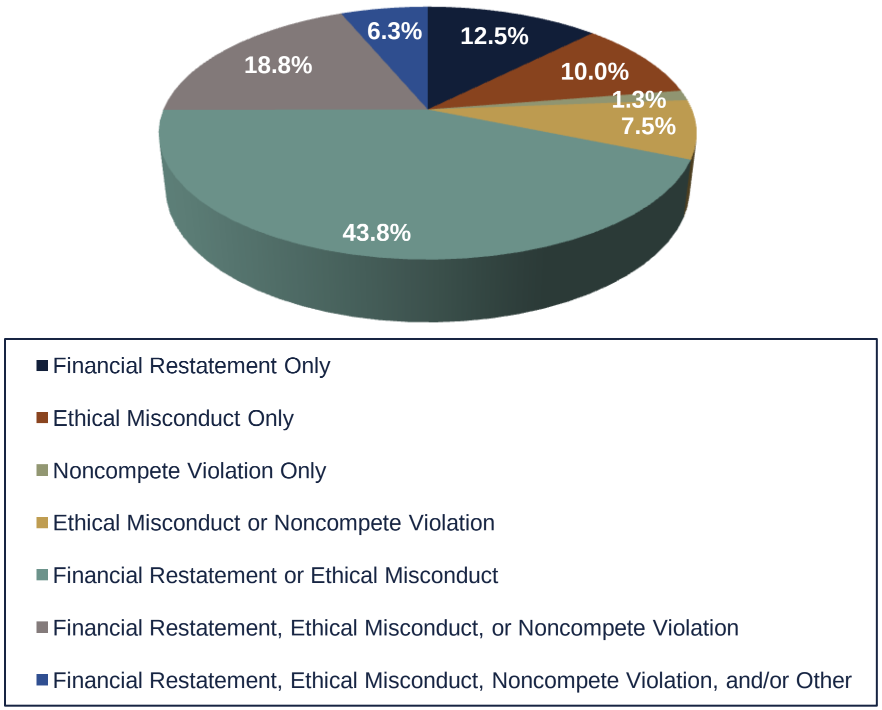
- Say on pay appears likely for 2011
- Anticipated requirement will be an annual, non-binding vote to approve the compensation of executives as disclosed in the CD&A, the tables, and related materials
- Several approaches have appeared, though it is likely that a comprehensive solution ultimately will be required

Comprehensive Vote (Yea or Nay)	Segmented Vote	Other Mechanisms
▪ Formulations vary—CD&A and tables, CD&A only; approval vs. ratification; annual vs. biannual vs. triennial ▪ Advantage is that a single vote is simple ▪ Disadvantage is that a single vote does not permit differentiation and is a blunt instrument that does not provide meaningful input	▪ Vote separately on different aspects of the program, e.g., philosophy, decisions in previous year (RMG) ▪ CEO compensation is within 20% of an acceptable amount and director compensation is within 20% of an acceptable amount (Littlefield) ▪ Advantage is that these can provide for more meaningful feedback ▪ Disadvantage is that it is more complicated and risks micromanagement	▪ Survey of investor views (Schering-Plough, Amgen) ▪ Hold meetings with large shareholders (Pfizer, Occidental Petroleum) ▪ Solicit feedback from shareholders on executive compensation disclosure (Prudential) ▪ Shareholder e-forum (Verizon)

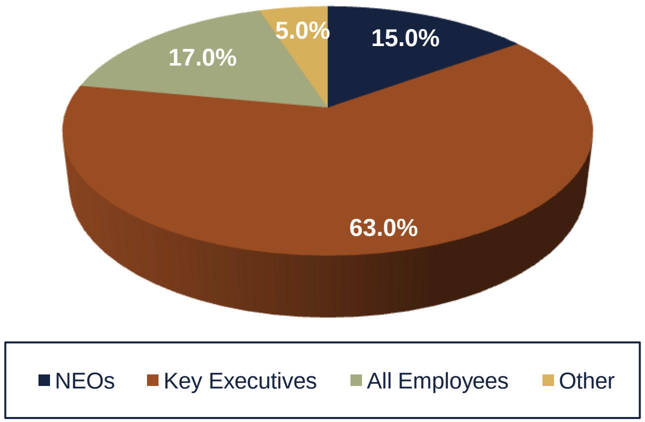
Clawbacks

- In 2009, 73% of *Fortune* 100 companies had publicly-disclosed clawback policies (95% of them adopted since 2005)
  - Approximately 33% of *Fortune* 100 companies amended or adopted new clawback policies in the past year
  - Typically extends beyond CEO and CFO to all key executives/employees
  - Included in overarching policies, hardwired into compensation plans or employment contracts

Triggering Events*



Covered Employees*



* Equilar, 2009 Clawback Policy Report