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Comprehensive Compensation®

ON POINT

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2009 Say on Pay Survey

Executive Summary

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Introduction

Say on Pay provides shareholders with an annual, non-binding vote in favor of or against a company's executive compensation program and is already mandatory for companies receiving funding under the Troubled Asset Relief Program (TARP).

This Trends and Issues Report includes:

- Current status of Say on Pay.
- Key highlights from Pearl Meyer & Partners' (PM&P's) recent Say on Pay survey.
  - The survey was conducted in July and August of 2009 to determine companies' views towards Say on Pay and understand how they are preparing.
  - The 231 respondents were primarily compensation committee members, top human resource professionals and compensation professionals.
  - 15 of the 231 respondents were from TARP companies.
- Recommended steps companies can take to prepare for Say on Pay.

Complete results from our Say on Pay survey are available for purchase at www.pearlmeyer.com.

We hope you find this information useful. If you would like to further discuss any aspect of these findings, please contact:

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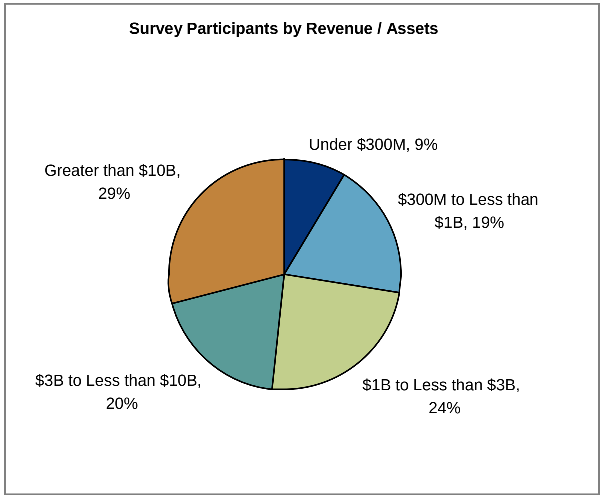
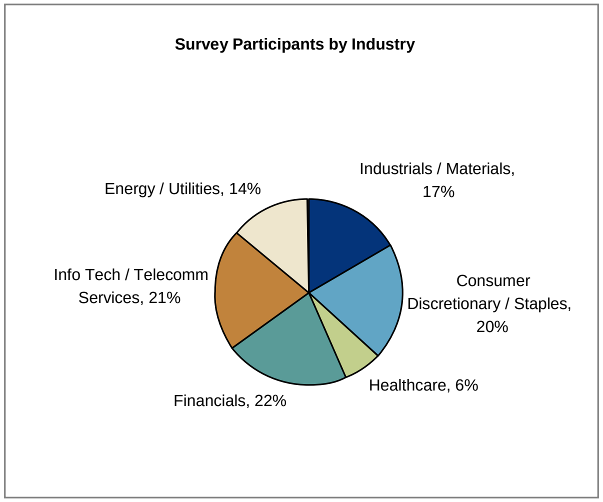




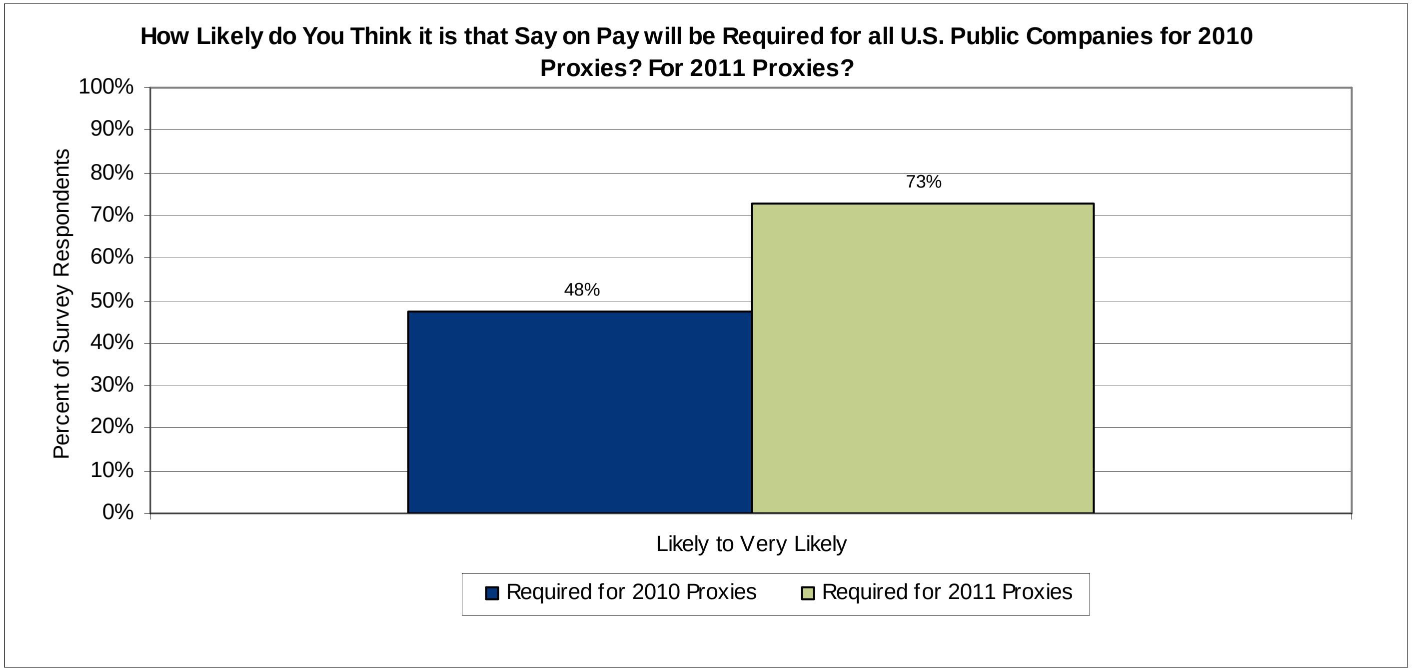
Current Status of Say on Pay

- Say on Pay is already required for nearly 300 U.S. companies receiving government assistance under TARP.
- Non-TARP public company shareholders have filed over 100 Say on Pay proposals in 2009, many at companies not considered to be troubled, and about 25 non-TARP companies have moved beyond the proposal stage to offer shareholders a Say on Pay vote (e.g., AFLAC, Intel, Microsoft, etc.).
- A major step towards mandatory Say on Pay votes at all public companies was taken on July 31, 2009, when the U.S. House of Representatives approved the Corporate and Financial Institution Compensation Fairness Act of 2009. Key provisions include:
  - <u>Annual Shareholder Approval of Executive Compensation</u>: All public companies would have to give their shareholders an annual, non-binding vote on executive compensation matters disclosed in the proxy statement for Named Executive Officers, including the Compensation Committee Report, the Compensation Discussion & Analysis (CD&A), the compensation tables and any related materials.
  - <u>Shareholder Approval of Golden Parachute Arrangements</u>: In the event of a change-in-control transaction, public companies would have to give shareholders a non-binding vote on any compensation agreements with Named Executive Officers that are related to the transaction.
- There has been lively public debate about the merits of requiring Say on Pay votes:

Pros	Cons
Growing political and shareholder support for Say on Pay.	Unnecessary, since dissatisfied shareholders already have the ability to vote out directors.
Shareholders need a way to express dissatisfaction with a company's executive pay programs without taking more drastic steps, such as removing a director.	An up/down vote on pay offers little practical insight into shareholders' views.
Could improve pay-for-performance linkage without disrupting Board functions.	Investors generally lack the expertise or inside company information needed to appropriately evaluate complex pay decisions.
Mandatory Say on Pay has been successful in Australia, the UK, Netherlands, Sweden, Norway and Denmark.	Executive talent may move to private companies where pay is subject to less scrutiny.
Say on Pay is already required for TARP companies.	Comparison with other countries who have successfully adopted Say on Pay is not helpful due to business/regulatory differences.

Key Survey Highlights - Expectations for Say on Pay

- Survey respondents were asked how likely they think it is for Say on Pay to be required for all U.S. companies for either 2010 proxies or 2011 proxies.
  - 73% of respondents predicted a mandatory shareholder vote on pay is "likely" or "very likely" in 2011, compared to 48% who expect such a requirement to be imposed in the upcoming proxy season.

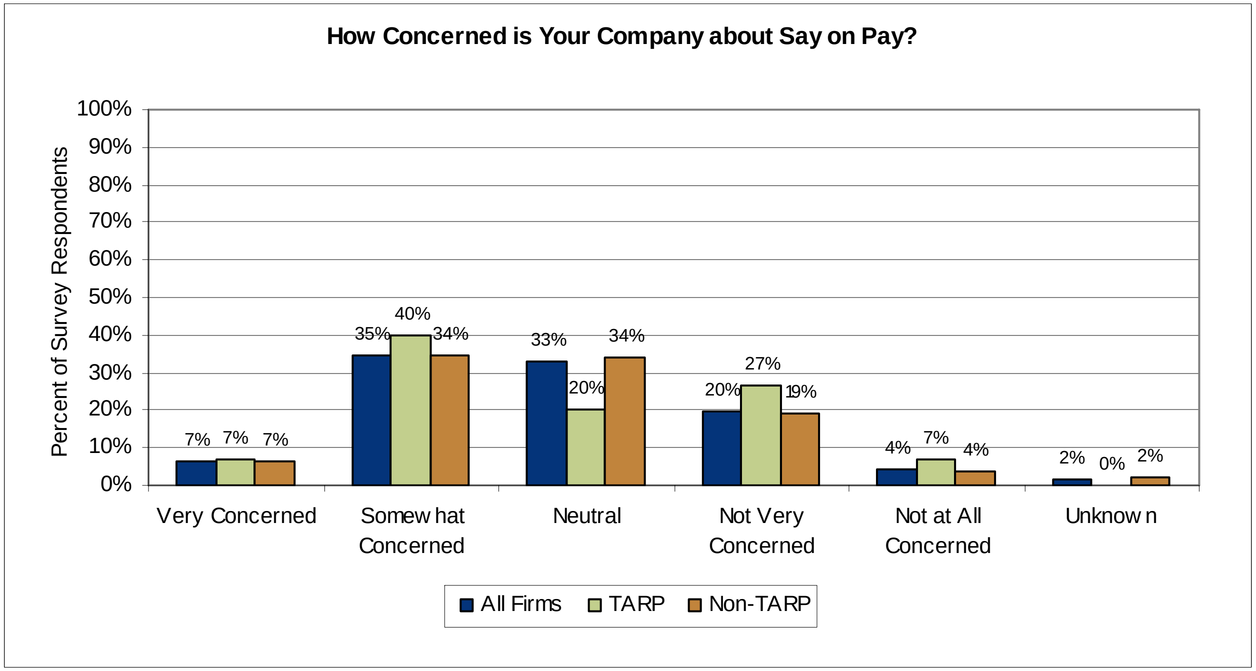


PM&P Observation: The SEC must issue rules within six months of the Corporate and Financial Institution Compensation Fairness Act of 2009 becoming law. Shareholder votes would be required to be included in any proxies filed on or after six months following the promulgation of the rules.

While many expected the Senate to pass the Act in September, the last recorded action on the bill occurred in early August when the bill was referred to a Senate committee. Unless dates are amended as the bill is considered in the Senate, mandatory Say on Pay for most public companies may well be pushed into the 2011 proxy season.

Key Survey Highlights - Concerns about Say on Pay

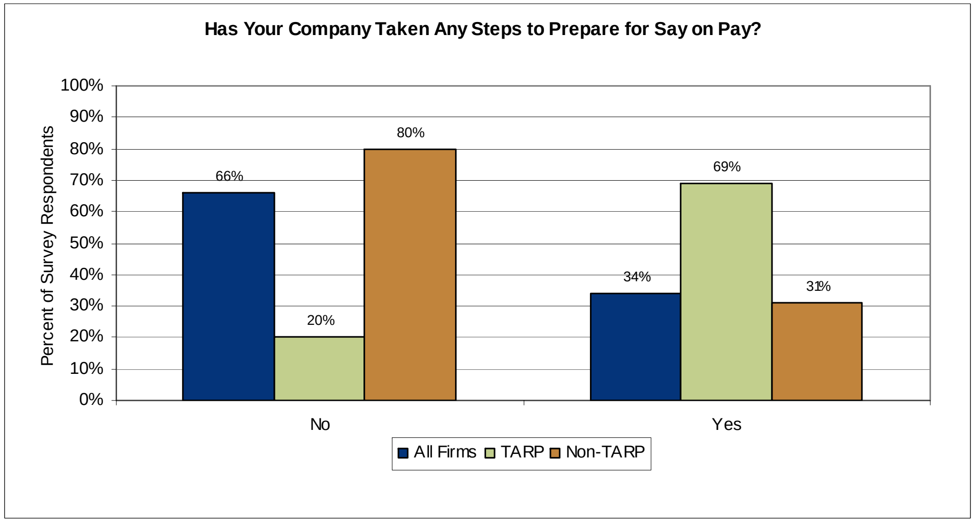
- Despite the possibility that Say on Pay will be mandated for all companies, only 7% of those surveyed said their company is "very concerned" about Say on Pay, with another 35% describing themselves as "somewhat concerned."

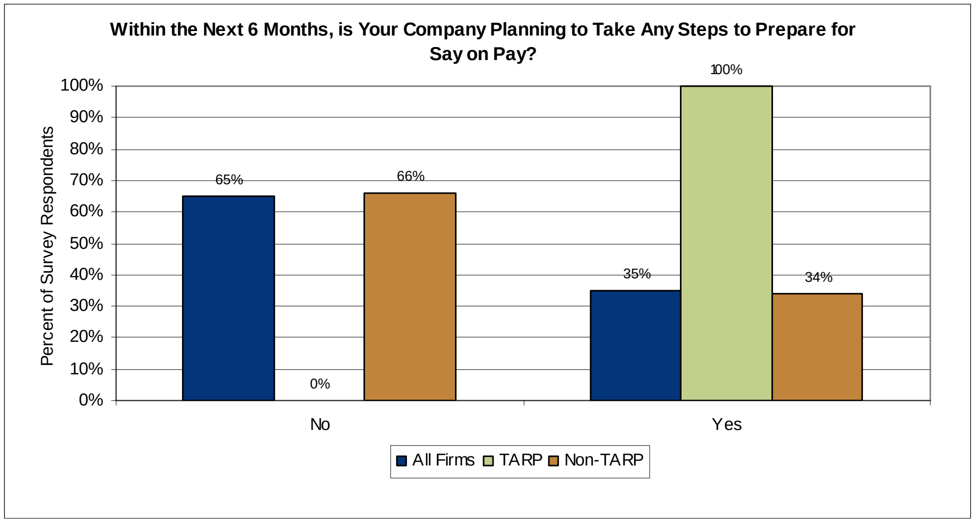


<u>PM&P Observation</u>: Companies' lack of concern about Say on Pay may reflect several factors: a sense that such a requirement will not take effect until 2011; a belief that their own executive compensation programs are appropriate and unlikely to evoke a negative shareholder vote; and an awareness that every Say on Pay vote held this year has passed.

Key Survey Highlights - Preparations for Say on Pay

- Limited concern about Say on Pay has translated into non-TARP companies taking little action to prepare for such a mandate.
  - 80% of Non-TARP survey respondents said their company hasn't taken any steps to prepare.
  - Of that group, only 34% plan to start preparations in the next six months.
- Companies actively preparing for Say on Pay have generally focused on steps that are easily achievable or already part of their annual compensation review, such as:
  - Reviewing proxy CD&A and related tables for clarity and completeness (82%).
  - Staying abreast of Say on Pay vote results at other companies (81%).
  - Reviewing market benchmarking practices, particularly peer group selection (69%).
- The least reported initiatives were:
  - Inquiring about institutional shareholders' views on Say on Pay or whether those investors are likely to follow the recommendations of proxy advisory firms (35%).
  - Establishing an effective shareholder communications strategy, including a process for gathering feedback on executive pay from institutional shareholders, unions and/or other constituencies (22%).





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Key Survey Highlights - Say on Pay Votes and Shareholder Outreach

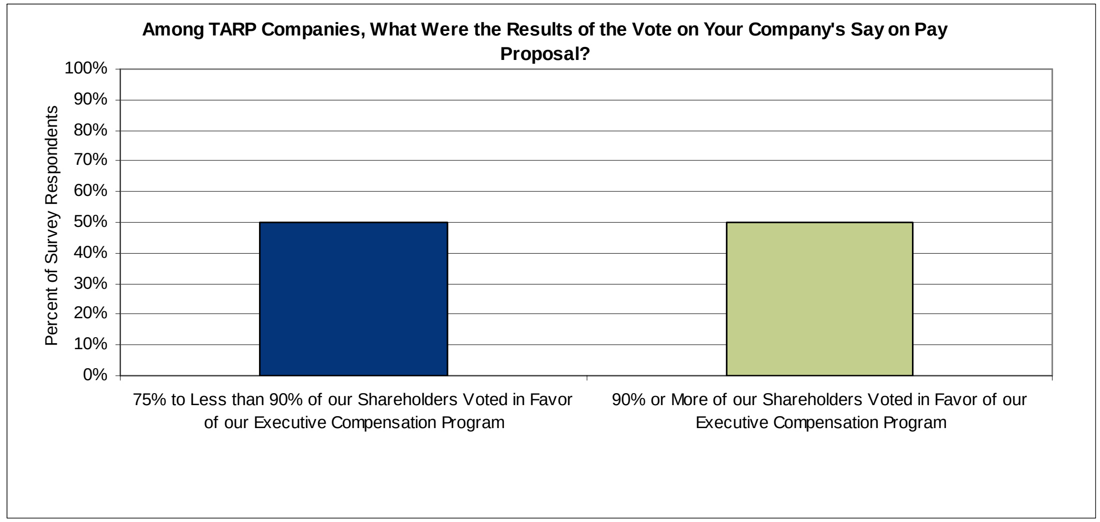
<u>TARP Companies</u>

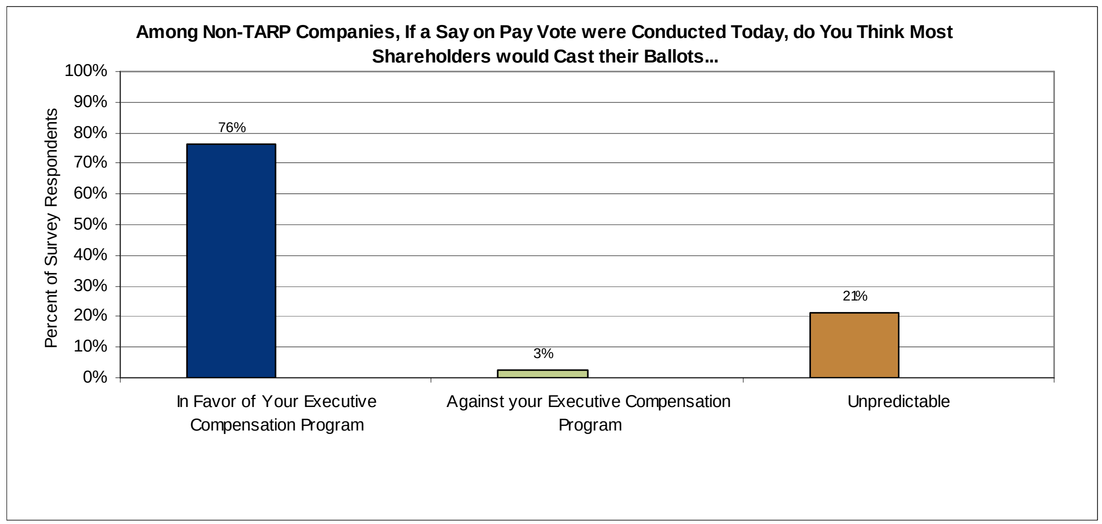
- Half of the TARP companies in the survey received a 90% or more positive shareholder vote on their compensation programs.
- 93% have not increased their outreach to shareholders about executive pay issues since Say on Pay was mandated.

<u>Non-TARP Companies</u>

- 76% of firms predicted shareholders would support their executive compensation program if a Say on Pay vote took place today.
- 46% of companies said they “never” seek shareholder input on executive pay matters and fewer than 6% are conducting such outreach more than once annually.
  - However, 62% say they will increase their outreach effort if Say on Pay becomes mandatory.

PM&P Observation: Among companies that had Say on Pay votes in 2009, companies received, on average, about 90% support, although dissent levels may rise as investors have more time to scrutinize pay practices.





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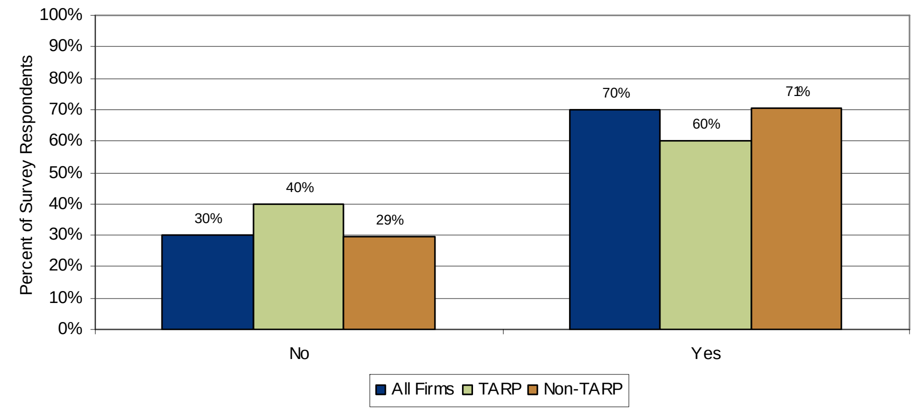
Key Survey Highlights - Proxy Voting Guidelines

- About two-thirds of respondents said they are familiar with the Say on Pay voting guidelines of the major proxy advisory groups.
- Voting guidelines of institutional investor groups were less well known, with 45% of companies expressing familiarity with those proxy standards.

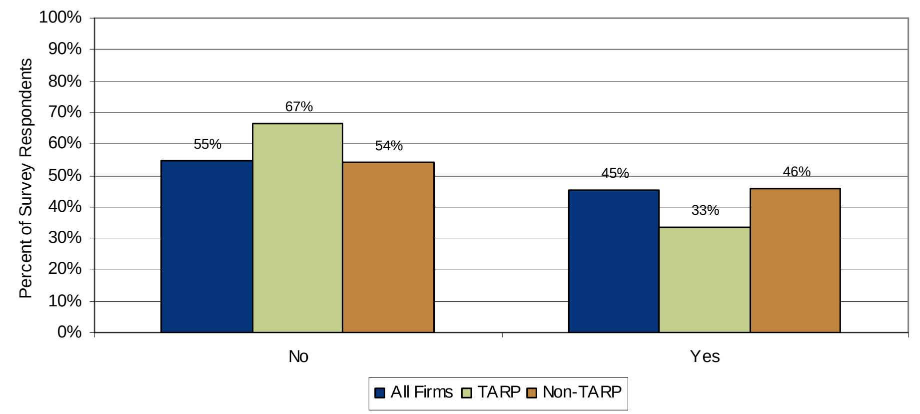
PM&P Observation: While shareholders have approved the executive compensation programs at all TARP companies so far in 2009, sizeable "no" votes were recorded at some companies where proxy advisory firms such as RiskMetrics Group (RMG) recommended against approval.

This suggests it may only be a matter of time before the first negative shareholder vote on Say on Pay.

Are You Familiar with the Overall Voting Guidelines of Proxy Advisory Groups such as RiskMetrics Group, Glass Lewis, and Proxy Governance with Respect to Say on Pay?



Are You Familiar with the Overall Voting Guidelines of Major Institutional Investors (e.g., Fidelity, CalPERS) with Respect to Say on Pay?



Recommended Steps to Prepare for Say on Pay

Our survey results indicate that most companies have not yet addressed the very real likelihood of mandatory Say on Pay votes. However, even if such a requirement is not imposed until the 2011 proxy season, companies should recognize that the decisions being made *now* regarding 2010 compensation practices will be subject to a possible Say on Pay vote in 2011.

We recommend the following proactive steps to prepare for future Say on Pay votes and minimize the likelihood of an unfavorable outcome:

<u>Knowledge</u>

- Ensure the Compensation Committee is already making decisions in the context of Say on Pay.
- Determine if Committee members are comfortable taking a position on pay issues vs. following “best practices” that may or may not make sense for a particular company.
- Understand your institutional shareholders’ views on Say on Pay and whether they are likely to follow recommendations from proxy advisory firms like RiskMetrics Group.
- Stay abreast of the outcome of Say on Pay votes at other companies.
- Partner internally with investor relations, legal and senior management on a multi-disciplined approach toward Say on Pay. Also draw upon the experience and expertise of external advisors across the various disciplines.
  - Our Say on Pay survey found that the Compensation Committee, Legal, and Human Resources departments are the mostly likely groups to lead company efforts on Say on Pay.

<u>Disclosure</u>

- Review your proxy CD&A and related tables to ensure executive compensation disclosure is clear, complete, and not susceptible to misinterpretation.
- Ensure that proxy disclosures are consistent with other public documents (e.g., 10-K, press releases, etc.), especially with respect to business objectives, risks and competitors, as well as consistent with the minutes of Committee meetings.

Recommended Steps to Prepare for Say on Pay

Program Review

- Establish a process and approach for reviewing the executive compensation program.
- Identify any perceived “poor pay practices” in your executive compensation philosophy and program design that are potentially “shareholder unfriendly”.
- Review market benchmarking practices, particularly with respect to selection of appropriate peer group(s).
- Conduct an analysis to ensure there is strong pay-for-performance linkage.
- Conduct a risk assessment to ensure incentive programs do not motivate “unnecessary and excessive risk-taking” and consider imposing additional checks and balances, such as caps on bonus payouts and clawback provisions.
- Consider instituting stock ownership/retention guidelines to strengthen the long-term alignment between executives and shareholders.
- Establish a plan for making any changes needed to the compensation program as a result of the program review. For example, the nature of the changes, when to implement, and how to communicate to employees and relevant external parties.
- Articulate the company’s rationale for any perceived “poor pay practices” that you decide not to change and develop an approach for addressing investor questions, should concerns arise.

Shareholder Outreach

- Establish an effective shareholder communication strategy, including a process for gathering feedback on executive compensation programs and possibly tailoring the approach for your top institutional shareholders.
- Establish a strategy for communicating with employee shareholders, including unions, where applicable.
- Review the company’s bylaws to understand how abstentions would be treated. Abstentions can be a determining factor in Say on Pay vote outcomes, but changing the bylaws could negatively affect other shareholder votes.

Finally, despite the visibility of Say on Pay and the benefits of the proactive steps outlined above, common sense still suggests that sustained, superior performance can offset the concerns of most shareholders.

About Pearl Meyer & Partners

For 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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