

# OVERVIEW OF EXECUTIVE COMPENSATION CONSULTING SERVICES



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**JAMES F. REDA**  
& ASSOCIATES, LLC

## Background

James F. Reda & Associates, LLC is an independent compensation and corporate governance consulting firm. Our principal consultants have over 50 years of combined experience in providing compensation advisory services. In 2009, James F. Reda & Associates was ranked by The Conference Board Task Force on Executive Compensation as one of the top independent executive compensation firms.

Our firm was formed in 2004. We assist Boards of Directors and/or Management with executive compensation issues. We do not offer any other consulting services, nor do we have relationships with affiliated firms that offer other services.

## Leadership Team

Our leadership team, Jim Reda and Kim Glass, have over thirty-five years of experience working with Board Compensation Committees and/or Management on executive compensation issues. Our extended team includes consultants with specific areas of expertise such as competitive market reviews, change-in-control 280G issues, compensation data resources, equity valuation techniques, and methods of increasing board and company effectiveness.

## Jim Reda

Direct service is provided by Jim Reda, an acknowledged expert, leader and resource in the field of executive compensation. Jim is the author of the *Compensation Committee Handbook*, which has been in continued publication for over ten years and is in its third edition. He is a free thinker who does not hesitate to take positions that may not be aligned with current market practices provided that those positions are rooted in thorough research, discussions and experience. Many of Jim's suggestions throughout the years have become best practices.

Jim Reda is one of only two consultants to be on both the 2003 NACD Blue Ribbon Commission on Executive Compensation and the Role of the Compensation Committee and the 2009 Conference Board Task Force on Executive Compensation. He has also testified in front of the House Committee on Oversight and Government Reform regarding the issue of the independence of compensation advisors. Additionally, James F. Reda & Associates has sponsored the Conference Board Executive Compensation Conference since 2004 and Directors' Institute since 2008.

## Consulting Philosophy

We pride ourselves as being a major part of the national discussion on all aspects of executive compensation. This experience, combined with proprietary research, speaking engagements, substantial firm resources and a full service practice, results in a deep understanding of executive compensation trends and how they affect our clients. We act with the agility and responsiveness of a smaller firm but have access to the research, market data and “current thinking” typically found at larger firms.

Because our firm’s focus is solely within the executive compensation arena, our clients do not need to question the independence of any advice we provide. We emphasize original research and are committed to 24x7 availability, response, and support. We have experience handling difficult and unusual assignments such as non-compete valuations (including non-compete research), option exchanges, valuation of consulting agreements involving equity grants, and assessments of relative company performance. We also have a high degree of technical competence in 280G analysis, equity valuation, ISS Compass modeling, RiskMetrics/ISS performance vs. pay analysis, Monte Carlo simulation, and 162(m) analysis.

## Methodology

The cornerstone of executive compensation is the company’s pay philosophy and total compensation program design. This is reviewed annually by the Compensation Committee in light of prevailing market practices and relevant legal and regulatory mandates, while protecting the interests of the Company’s shareholders. To develop an appropriate and robust compensation review it is extremely important that we fully understand the compensation philosophy and strategy of our client. In developing a compensation philosophy, we work with our clients with these four main components:

Peer group comparisons

*Who should the company compare themselves against for salary and short- and long-term incentive opportunities?*

Pay positioning strategy

*How should the company pay their executives in relation to market levels of pay?*

Internal vs. external pay equity

*How much weight should the company place on the internal relationships among executives (internal) vs. the market (external)?*

Performance alignment with business plan

*Specifically, how is the compensation system aligned with the business plan?*

### Typical Scope of Client Work

- Comprehensive market pay review for the top executives, including the CEO and other top executives. Typical study parameters include the following:
  - pay components—base salary, annual bonus and long-term incentive awards;
  - other pay components such as benefits and perquisites are also included when appropriate;
  - data sources—proxy statements for the peer group companies as well as published and private surveys as applicable;
  - competitive market trends and design practices.
- Market review of outside director compensation, including pay levels and program design.
- Performance analysis comparing our client’s performance over the last several years to various benchmarks including the performance of the compensation peer group and overall industry data.
- Assistance with drafting of the Compensation Discussion and Analysis (CD&A) section of the proxy statement and related tables.
- Updates to keep the Compensation Committee informed about regulatory and technical developments impacting executive and director pay.
- Attendance at Compensation Committee meetings.
- Other projects and analyses, including:
  - design of short- and long-term incentive plans;
  - review of employment agreements;
  - review of severance and CIC agreements;
  - assistance with design of stock plans and related share authorization modeling;
  - accounting and valuation issues relating to equity grants.

### We Maintain a Research Capability that Rivals Much Larger Consulting Firms

We devote a substantial amount of our revenue to maintaining the technical resources that help us assist our clients. For instance, we access an electronic research database that accumulates the compensation data included in SEC filings (e.g., proxy statements) and various surveys that cover a broad array of industries. Some of the research services we use include:

- S&P's Research Insight: Database of historical financial, demographic and market data for all publicly traded companies;
- BNA portfolios: Updated publications regarding tax law pertaining to compensation;
- Checkpoint (Thomson Reuters). Tax and accounting research system with daily updates;
- Hoover's: Comprehensive company, industry, and market intelligence database of 12 million companies;
- Montgomery Investment Technology: Latest software for stock compensation accounting and valuation work;
- Real Options Valuation: Latest software for regression and Monte Carlo analysis;
- Published Surveys: We have access to many compensation surveys, including those produced by Watson Wyatt and Mercer. We have also worked with other large consulting firms to access data from their private databases for clients that are participants in those databases;
- Proprietary research on severance, change-in-control, perquisites, and performance metrics;
- Accounting expertise: 162(m), 280(G), 409(A), IFRS;
- A staff that includes a Certified Risk Analyst as earned through the American Academy of Financial Management, which acknowledges competency in real options analysis, including Monte Carlo simulation and equity valuation consistent with FASB ASC Top 718 (formerly FAS 123 (R)).



### Consulting Experience

Jim works with both public and private organizations in planning, creating, and implementing incentive programs. Jim also advises companies on incentive strategy, including long- and short-term senior executive employment arrangements, change-in-control metrics, business combinations, shareholder rights, and corporate governance issues. He is a recognized expert in the area of integrating incentive and corporate strategies. Jim has more than 23 years of experience specifically in the area of senior executive compensation.

### Work Experience

Prior to recently forming his own firm, Jim worked at three major executive compensation consulting firms. He began his executive compensation consulting career at The Bachelder Group in 1987, where he worked for nine years.

### Education

Jim has a B.S. in Industrial Engineering from Columbia University and an S.M. in Management from the Massachusetts Institute of Technology, Sloan School of Management.

### Professional Activities

Jim is a member of the American Society of Corporate Secretaries, WorldatWork, The National Association of Stock Plan Professionals, National Association of Corporate Directors, and the New York Society of Security Analysts, for which he serves on the Corporate Governance and Shareholders Rights Committee. He is Chair of the Atlanta Chapter of NACD. He is a commissioner member of the recently published BRC entitled "Executive Compensation and the Role of the Compensation Committee".

Jim has written numerous articles on executive compensation, stock award programs, long-term incentive strategy, merger and acquisition issues, and compensation committees in publications such as *The Corporate Board*, *Directorship*, *Directors & Boards*, *Journal of Deferred Compensation*, *WorldatWork Journal*, *Director's Monthly*, *Journal of Taxation of Employee Benefits*, and *Journal of Compensation & Benefits*. He has published books on executive compensation, including *Pay to Win: How America's Successful Companies Pay Their Executives* (Harcourt: 2000), and *The Compensation Committee Handbook* (John Wiley: 2007), which is in its third edition.



### Consulting Experience

Kim is Principal at James F. Reda & Associates in Atlanta, Georgia, and has over 13 years of experience in the executive compensation field. Kim has consulted with clients in various industries, including manufacturing, service, pharmaceutical, retail, and utility companies.

Kim consults in many areas of executive compensation, including:

- Competitive benchmarking
- Incentive program design (cash and equity)
- Compensation disclosure (including issues related to the CD&A and required tables)
- Outside director compensation strategy and design
- Change-in-control and general severance design
- Board and Compensation Committee governance

Kim works closely with compensation committees and/or management of public and private companies. Recent engagements include: Build-A-Bear Workshop, Inc.; Goodrich Corporation; International Paper Company; J. C. Penney Company, Inc.; King Pharmaceuticals, Inc.; Milliken & Company; Molina Healthcare; Rollins, Inc.; Tier Technologies; United Parcel Service, Inc. and Zep Inc.

### Education

Prior to JFR, Kim worked in the executive compensation area of a major HR services firm. She graduated from the University of Virginia and started her career as a C.P.A. at Arthur Andersen & Co.



### Consulting Experience

Dave has over 20 years of experience and functional expertise in economics and customer research along with 14 years of consulting experience and over 30 years of professional work experience. Dave's areas of expertise include the valuation of stock-based compensation arrangements, the review of senior executive compensation packages, modeling for ASC Topic 718 purposes, and the design of special situation incentives and change-in-control programs. Prior to joining James F. Reda & Associates, Dave was a Vice President of Sales Operations at Peterson's, a division of The Thomson Corporation, and was also Vice President of Marketing Services at The McGraw-Hill Companies.

Dave has worked closely with management and/or the compensation committees of major companies. Recent engagements include: Build-A-Bear Workshop, Inc.; Cambrex Corporation; China Security & Surveillance Technologies, Inc.; Enzo Biochem; The Goldman Sachs Group, Inc.; Goodrich Corporation; International Paper Company; J.C. Penney Company, Inc.; King Pharmaceuticals, Inc.; Majesco Entertainment Company; Novelis, Inc.; Kid Brands, Inc.; Steven Madden Limited and United Parcel Service, Inc.

### Education

Dave earned a B.S. in Mathematics and an M.A. in Economics from Western Illinois University.

## Our Clients

James F. Reda & Associates has advised well over 100 companies, including Fortune 500 companies, across several industry sectors.

### Large Size Clients

Bed Bath & Beyond, Inc.  
Entergy Corporation  
International Paper Company  
J.C. Penney Company, Inc.  
United Parcel Service, Inc.  
The Goldman Sachs Group, Inc.



### Medium Size Clients

China Security & Surveillance Technology, Inc.  
King Pharmaceuticals, Inc.  
Premiere Global Services, Inc.  
Steve Madden Limited  
Zep Inc.



### Small Size Clients

Cambrex Corporation  
Chase Corporation  
Enzo Biochem, Inc.  
Majesco Entertainment Company  
Tier Technologies, Inc.



# Our Publications and Research Studies

## Articles

*Financial Executive Magazine* – [“Executive Compensation: Balancing Risk, Performance and Pay”](#) by James F. Reda. November 2009.

*Financial Executive Magazine* – [“Taking Aim at Performance Targets”](#) by James F. Reda & David M. Schmidt. September 2008.

*The Corporate Board* – [“How ‘Independent’ Is Your Compensation Advisor?”](#) by James F. Reda. March/April 2008.

*workspan* [“The Case for Performance Shares”](#) by David M. Schmidt. July 2006

*Directors & Boards* – [“The Importance of a Compensation Philosophy”](#) by James F. Reda. Winter 2005 Edition.

*WorldatWork journal* – [“Till Wealth Do Us Part: The Truth Behind Executive Employment Arrangements”](#) by James F. Reda. Second Quarter 2002.

## Books

*Pay to Win: How America’s Successful Companies Pay their Executives* (Harcourt 2000)

*The Compensation Committee Handbook* (John Wiley, 1<sup>st</sup> ed. 2001, 2<sup>nd</sup> ed. 2004, 3<sup>rd</sup> ed. 2007)

## Research Studies

### [2008 Study of Performance Metrics Among Top S&P 500 Companies](#)

This study provides a review of the 2009 proxies regarding choice of performance metrics, weight of long-term incentive vehicles and pay for performance curves for both short- and long-term incentive plans for 200 of the S&P 500 companies. This is a continuation of our study that looked at 2007 proxies.

### [Executive Pay and Risk: Will New SEC Rules Affect the Ability to Attract and Retain Talent?](#)

Featured in the March/April 2010 issue of the *Journal of Compensation and Benefits*, this study looks at how companies should conduct risk profile assessments of their overall compensation programs in accordance with new 2010 SEC rules.

### [2006 Analysis of Change-in-Control Severance Practices](#)

As executive pay continues to come under intense scrutiny, so do company change-in-control (CIC) programs. This study provides an overview of the current CIC programs in *Fortune* magazine’s top 100 companies.

### [New Study as featured in 8/16/09 New York Times Executive Compensation Trends for 2009: Balancing Risk, Performance and Pay](#)

In light of the economic downturn, we reviewed 191 of the largest companies of the S&P 500 Stock Index. This study reviews the changes made in 2009 by 70% of these companies.

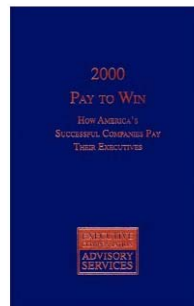
### [Proxy Disclosure: Incentive Plan Performance Measures and Design Structure](#)

With the SEC’s new rules on disclosure of executive compensation practices, investors are anxious to find out whether amounts paid correspond with performance at *Fortune* magazine’s top 300 public companies.

### [2007 CEO Perquisites and Supplemental Retirement Benefits Study](#)

In light of the new disclosure requirements for perquisites circulated by the Securities and Exchange Commission, James F. Reda and Associates analyzed perquisite and supplemental retirement disclosures for Chief Executive Officer’s at *Fortune* magazine’s top 150 public companies.

The New York Times



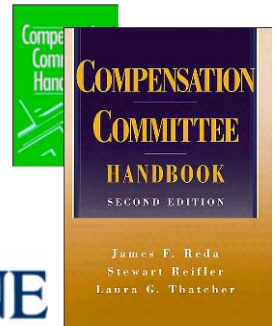
BusinessWeek

CRAIN'S  
CHICAGO BUSINESS

FINANCIER  
WORLDWIDE

Directors  
& Boards  
THOUGHT LEADERSHIP  
IN GOVERNANCE SINCE 1976

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FORTUNE

THE WALL STREET JOURNAL.