

STUDY OF 2010 SHORT- AND LONG-TERM INCENTIVE DESIGN CRITERION AMONG TOP 200 S&P 500 COMPANIES

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INTRODUCTION

It has been over a year since the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was signed into law. While Dodd-Frank includes several provisions that impact executive compensation, only Say-on-Pay and Say When on Pay have been implemented. The Securities and Exchange Commission (“SEC”) has yet to issue proposed rules for the other executive compensation sections such as the pay-for-performance analysis and CEO pay relative to the median of annual total compensation of all other employees. These new rules are in addition to the SEC rules relating to disclosure of performance measures and target levels, and the impact of risk on executive compensation plans and programs that became requirements in the previous few years.

In 2011, the inaugural year for Say-on-Pay and Say-When-on-Pay, just 44 companies, approximately 1.4% of companies with Say-on-Pay proposals, failed to receive majority shareholder support. Eight of these companies are S&P 500 companies. On average, companies received 91% favorable votes for executive compensation proposals. An analysis by Institutional Shareholder Services (“ISS”) indicated nearly three-quarters of the failed votes were due to pay-for-performance issues. All these companies received AGAINST recommendations from ISS. It has been estimated that an ISS AGAINST recommendation results in an approximate additional 25% in the AGAINST vote.

Including the 44 failed votes, there were approximately 270 companies receiving less than 70% shareholder support. Based on the ISS 2011-2012 Policy survey, 72% of investor respondents indicated that an explicit response from the board regarding improvement to pay practices should be disclosed in the proxy by these companies. All these companies will be receiving special scrutiny from ISS and investors in 2012.

This study provides a behind-the-scenes look at how incentives are being structured to connect pay and performance. Because incentive compensation comprises the bulk of executive pay packages at publicly-traded companies, boards of directors and senior management are continually searching for the right performance measures to balance rewards with financial, stock price and operational performance as well as non-financial and individual performance. Once companies get beyond the difficulties of designing executive programs that adequately balance pay versus performance, they then have the added pressure of clearly explaining their pay-for-performance formula to investors.

There are four broad issues for publicly-traded companies relating to performance-based compensation, which are as follows:

- Selection of short- and long-term performance measures that have been approved by shareholders (i.e., contained in incentive and equity plans);
- Adequate disclosure of performance goals (measures and levels) in the proxy filing;
- Review of the risk associated with performance plans and appropriate proxy disclosure; and
- Clawback of incentive payouts if financial statements have been restated, causing the performance goals to not be met (included in Dodd-Frank, but regulations have yet to be issued).

Outside advisors, lawyers and consultants play a substantial role in the process of setting and describing performance measures and goals because designing the appropriate compensation package for senior executives is a difficult process. The unique environment of the company and the individual needs of executives must be considered as compensation programs are designed. In addition to these considerations, public scrutiny of executive pay decisions and practices complicates the overall process of setting executive pay.

With Say-on-Pay a reality, improving disclosure of measures used, the values associated with those measures, and how they can be expected to drive performance should be a priority for all public companies. The SEC requires that in their annual proxy statements, companies disclose the specifics of their executive compensation policies in clear language for investors. This requirement developed from the assertion by the SEC that if executive compensation performance targets are central to a company's decision-making process, these targets must be disclosed to investors. ISS is also explicit in the need for "robustness of disclosure" as this is a component of their qualitative assessment of Say-on-Pay proposals.

In their 2009/2010 policy survey, ISS reported that, for institutional investors, pay-for-performance is a cornerstone of a balanced evaluation of executive pay practices. In fact, 94% of institutional respondents indicated that pay-for-performance is a critical or important consideration in their vote determinations. These responses were key in driving the new ISS framework for assessing pay-for-performance and determining their Say-on-Pay recommendations.

ISS has issued their 2012 proxy voting guidelines, which include three quantitative evaluation factors that fall into two categories, as follows:

1. Relative Alignment (to group of 14-24 companies in similar industries and of a similar size):
 - a. TSR rank compared to CEO pay rank for one year (weighted 40%) and three years (weighted 60%)
 - b. Multiple of CEO's total pay for the most recent fiscal year relative to the median pay of the peer group
2. Absolute Alignment: Trend (slope) of annual CEO pay and the company's annual TSR over the prior five fiscal years (performance slope minus pay slope).

ISS has also proposed a qualitative review that will consider the following:

- The ratio of performance-based to time-based equity awards;
- The overall ratio of performance-based compensation to total compensation;
- The robustness of disclosure and rigor of performance goals;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics (e.g., growth in revenue, profit, cash flow, etc.) on both an absolute basis and relative to peers;
- Special circumstances related to such things as a new CEO in the prior fiscal year or equity grant practices (e.g., biennial awards); and
- Any other factors deemed relevant.

All this suggests that companies should include in their proxy statements complete pay-for-performance disclosures such as minimum, target, and maximum performance goals and corresponding payout levels. The SEC rules and ISS voting guidelines require that all performance measures and goals be released and compared with actual results for both short- and long-term incentive plans.

Many public companies are redesigning or have redesigned their incentive programs to ensure there is a link between performance achievement for the company and executive and performance achievement for shareholders. A disconnect stemming from faulty incentive design could expose an executive and the board of directors to unwelcome scrutiny from shareholders and the public in addition to the risk of a negative Say-on-Pay recommendation and vote.

In order to investigate what (and how much) is being shared in annual proxy statements about executive pay packages and how incentive pay is designed, James F. Reda & Associates, LLC has conducted a study of the 2011 annual proxy statement disclosures for 200 of the top (largest) U.S. companies. This is the third year we have conducted this in-depth analysis for the top 200 public companies. A list of the companies studied is included in Appendix 3. The sector mix was led by capital goods companies, details of which are shown in Appendix 4.

EXECUTIVE COMPENSATION OVERVIEW

There are five elements to executive compensation:

- Base salary, including cost of living, merit and promotional increases;
- Short-term incentives, which measure performance over a period of one year or less and are almost always paid in cash;
- Long-term incentives, which are typically denominated in shares of stock and reward performance for a period of time greater than one year;
- Benefits and perquisites, including basic benefits, SERPs, retirement, personal use of aircraft, financial counseling and other excess benefit plans; and
- Severance, including severance with or without a change-in-control, death, disability, or other.

There are multiple factors that impact the alignment of pay and performance and are crucial to the overall executive program design:

- Performance measures;
- Pay-for-performance formula (minimum, target, and maximum levels for performance goals and payout levels);
- Long-term incentive pay mix; and
- Severance pay.

OVERVIEW OF STUDY

OBJECTIVES

The objectives of the research study were:

- To identify the primary characteristics of short- and long-term incentive plan designs;
- To identify trends in long-term incentive programs, including stock options, time-based restricted stock, and performance-based programs;
- To analyze the trends in plan design disclosure over time; and
- Review target setting as compared with actual results.

DATA

The data used for this study was collected from SEC filings (in most cases from proxy statements) based on information provided in the CD&A and related tables. The data was disclosed by companies in a variety of ways, including tables, descriptive text, and footnotes.

PROCEDURES

The pay-for-performance formula characteristics examined in this study include:

- Performance measures (types of measures and weightings);
- Performance levels (at threshold, target and maximum); and
- Payout levels (at threshold, target and maximum).

For the purposes of providing comparable analysis given the variability of reporting and data, judgments were made as to the best ways to combine data. The data was carefully reviewed for completeness and accuracy. We reviewed proxies filed through August 2011 with fiscal years ending in 2010 or early 2011 (May, 2011).

INCENTIVE DESIGN OVERVIEW

PERFORMANCE MEASURES OVERVIEW

Performance can be measured against a fixed goal (such as an earnings target) or a relative goal (as compared against a peer group of companies). Long-term incentive plans (LTIPs) often use relative measures and are more convenient to report than short-term incentive plans (STIPs), which almost always use key, often sensitive, financial goals to maintain a competitive advantage.

Performance measures can be segregated into two main categories: market-based (stock price or total shareholder return) and financial-based (earnings per share, return on assets, etc.) Some refer to these performance classes as “external” and “internal”.

Ideally, a balanced incentive program (including short- and long-term incentives) should include financial goals, stock-appreciation goals, absolute goals and relative goals. Thus, if the company does well against its business plan but underperforms in its industry, the incentive payout will fairly reflect overall performance. On the flip side, if a company does not hit its internal goals but outperforms its peers and/or the broader stock market, then some level of payout may be warranted.

PAY-FOR-PERFORMANCE FORMULA OVERVIEW

Investors are increasingly aware of executive compensation issues and are interested to see if pay corresponds with performance. Indeed, with Say-on-Pay being discussed for the past few years and implemented in 2011, pay-for-performance has become a core issue for investors and a priority measurement item for proxy advisory firms such as ISS. As a result, companies should be focused more than ever on ensuring that shareholders are comfortable with their strategies by more clearly communicating their goals.

Performance-based compensation is used by almost all companies to balance executive pay with corporate performance. A fair balance can be struck between the goals of the shareholders and senior management under the oversight of the board of directors, but it is not a simple task. The selection of performance measures and corresponding performance levels can be one of the most difficult aspects of designing an incentive compensation program.

Goals need to be reasonable and aligned with the business plan and investor communications. In addition, the minimum threshold payout for an incentive plan should be adjusted to be fair to both executives and shareholders.

Because the relationship between pay and performance is often complex, communicating the purpose and design details of the executive performance program is challenging. However, despite changing disclosure rules, the interest in pay-for-performance continues to grow and will continue to be a focus of the SEC as they review proxy disclosures and of shareholders as they vote on executive compensation.

STUDY HIGHLIGHTS

INDIVIDUAL OBJECTIVES IN STIPS AND USE OF DISCRETION

Many companies use individual performance measures in their STIPs. Nearly half (95) of the companies in the study group included specific individual objectives for NEOs in determining annual incentive payments; however, seven of these companies did not include individual objectives for the CEO. Individual objectives can be based on a combination of financial and non-financial measures. Of the companies that used individual objectives in 2010, 26% disclosed a separate weighting for this measure ranging from 10% to 50%.

Discretion was used at 62% of companies in 2010 to determine at least a portion of the bonuses paid to executives. Generally this was negative discretion in compliance with 162(m).

INSIDE/OUTSIDE PLANS

Of the 200 companies reviewed, disclosures in 2010 for about 42% of companies suggested the use of “inside/outside” STIP plans. These types of plans are often associated with fewer disclosures of metrics, especially threshold and maximum values. Inside/outside plans must be approved by shareholders and follow specific guidelines in order to qualify as performance-based compensation that is in compliance with Internal Revenue Code 162(m) and thus tax deductible. This approach to designing annual incentive plans includes two steps, which are described below.

The first step is to create a bonus pool based on a key financial measure or two (the “outside plan”). The bonus pool represents the maximum that can be awarded to the participants, and allows companies to then use negative discretion to reduce the maximum payouts to the level calculated based on the second step (the “inside plan”). Seventy-four percent (74%) of these companies use a percentage of income to set the bonus pool amount (e.g. operating income, net income, or pre-tax income). Another 11% of companies use income in addition to other measures like EPS, revenue, ROE, or cash flow for determining the bonus pool. When using income to create a bonus pool, the percentages applied to net income or operating income typically ranged from 1% to 5%.

The second step is to design the primary incentive plan (the inside plan) which operates within the limits set by the outside plan. Often the inside plan includes a combination of financial/formulaic measures and individual/discretionary goals along with corresponding threshold, target and maximum levels. Because the outside plan is based on a financial measure that is approved by shareholders and meets the other 162(m) requirements, these individual/discretionary amounts are considered performance-based and therefore are tax deductible.

SETTING STIP TARGETS

Year-over-year target goals for 2010 increased an average of 4% over 2009, with a median increase of 5%. Moreover, target performance goals were also up 5% (at the median) over prior year actual results. Given the uncertain economic recovery, these increases, most of which relate to profitability, appear to be realistic and proper. However, it is interesting to note that 30% of target performance goals were set at levels that were lower than the prior year actual results and 36% below the prior year target value. This would suggest that a “lowering-the-bar” approach is one reason for the large percent of CEOs with bonus payouts above target (see the following paragraph).

PAY-FOR-PERFORMANCE

An examination of payouts relative to target indicates that significantly more companies exceeded targets in 2010 than in 2009, which is a reflection of the economic recovery that took place in 2010 coupled with reduced targets at a number of companies. Among companies that reported short-term incentive payouts in 2010, 76% of CEOs were paid at or above target levels as compared with 55% in 2009. Of the companies that disclosed long-term incentive performance and payout information, the percentage that met or exceeded goals was 53% in 2010, which was an increase from 44% in 2009.

An examination of individual measures indicates that in cases where the target value was less than the prior year, target was exceeded 81% of the time. This is slightly higher than for those measures with increased target values over the prior year where target was exceeded in 77% of the cases. It appears that reducing targets enabled many more companies to exceed target.

STOCK OPTION GRANTS REMAIN POPULAR

The shift away from stock options and towards performance awards that are earned based on achieving performance goals continued in 2010. In fact, for the first time, the prevalence of grants of performance-based awards exceeded the combined prevalence of time-based stock options and stock appreciation rights (“SARs”). This result is not surprising given the increased focus on pay-for-performance and the dilutive effect of stock options.

The collective use of performance-based awards (which includes performance shares, performance share units, performance-based restricted stock, performance stock options, premium stock options, and long-term cash) plans totaled 77% in 2010, with only 75% of companies granting stock options or SARs. Since 2008, the prevalence of stock option/SAR grants, in total, has declined from 82% to 75% in 2010 whereas the prevalence of performance-based awards has remained relatively stable (between 77% usage in 2010 and 75% in 2009). These figures exclude companies that did not make any LTI grants (two in 2010, three in 2009, and five in 2008).

While the usage of stock options/SARs has declined since 2008 and the usage of performance-based awards has remained relatively stable, the use of time-based restricted stock/units has increased. In 2010, 57% of companies included time-based restricted stock/units in their compensation program, up from 48% in 2008. We believe that part of the reason for the increase in time-based restricted stock/units was due to the difficulty in setting performance goals in an uncertain economy. In addition, these types of grants provide retention benefits and promote an ownership mentality.

DETAILED OBSERVATIONS

PERFORMANCE MEASURES USED IN INCENTIVE PLANS

SHORT-TERM INCENTIVE PLANS (BONUS PLANS)

Findings include the following:

- Earnings per share (EPS) and income were the two most common measures used by the companies in the study that disclosed their performance measures. Forty percent (40%) of companies with non-discretionary STIPs used EPS in 2009 and 2010. Eighty-nine percent (89%) of all companies used at least one income measure in 2010, similar to the 87% prevalence in 2009.
- Other common measures used in 2010 included revenue (33%), capital efficiency ratios (28%), and cash flow (28%).
- Total shareholder return (TSR) is not often used in a STIP. In this study, only 3% of companies with STIPs used TSR as one of the performance measures.
- For companies with STIPs, use of non-financial measures (such as customer satisfaction, production goals, and new business market share) was evident at 56% of companies in 2010, 60% in 2009 and 58% in 2008.
- Thirty-nine percent (39%) of companies with STIPs and LTIPs used one or more of the same measures in both incentive programs. This is slightly lower than in 2009 when 41% of companies used the same measure or measures.

LONG-TERM INCENTIVE PLANS

Findings include the following:

- Similar to STIPs, the most commonly used type of measure in LTIPs was income. Fifty-five percent (55%) of companies with LTIPs used at least one measure of income in 2010, up slightly from 54% in 2009. EPS is still the most common income-based measure used, with 62% usage in 2010 and 63% in 2009.
- TSR was the next most frequently used measure with 45% prevalence for those companies with LTIPs in 2010, matching 2009 prevalence. TSR is usually used as a relative measure that compares company performance to a peer group or industry index.
- Forty-one percent (41%) of the companies used a capital efficiency measure in 2010, a significant increase from just 31% in 2009. This category includes return on invested capital, return on equity, return on capital, return on net assets, economic profit, and economic value added.
- The use of revenue measures increased in LTIPs to 18% in 2010 from 14% in 2009. This increase was similar to the increase found in STIPs (from 30% to 33%).
- Cash flow measures in 2010 matched 2009 prevalence at 13%.
- Seventy percent (70%) of performance periods reported were three years in length, as compared to 75% in 2009. An additional 4% of companies used 3-year performance periods but set goals annually; this was an increase from 2% in 2009.

SUMMARY OF REPORTED MEASURES

TYPES OF MEASURES

By Company (% of STI/LTI plans, Non-Discretionary)*

<i>Performance Measure</i>	<i>2010</i>		<i>2009</i>		<i>2008</i>	
	<i>STI</i>	<i>LTI</i>	<i>STI</i>	<i>LTI</i>	<i>STI</i>	<i>LTI</i>
Income: EPS, net income, EBIT/EBITDA, operating income, pretax income	89%	55%	87%	54%	86%	51%
Total Shareholder Return: Stock price appreciation plus dividends (relative and absolute), stock price	3%	45%	5%	45%	4%	43%
Capital Efficiency: Return on equity, return on assets, return on investment, return on capital, return on sales, economic value added	28%	41%	28%	31%	31%	33%
Revenue: Revenue, revenue growth	33%	18%	30%	14%	29%	15%
Cash Flow: Cash flow, cash flow growth	28%	13%	29%	13%	25%	9%

Sample size (number of companies): 200

STIPs**: 177 (2010), 179 (2009), 185 (2008) | LTIPs: 154 (2010), 147 (2009), 159 (2008)

*The sum of percentages is greater than 100% since most companies use more than one measure.

**Important Point to Note: In the case of STI, this chart does not include individual performance plans, which over 50% of companies use to some degree

NUMBER OF MEASURES

Most companies include multiple measures in their STIPs. In 2010, 72% of companies with STIPs used two or more financial measures in their plan design, which is up from 70% in 2009 and 65% in 2008. With regard to LTIPs, in 2010 an almost equal number of companies used one measure (41%) and two measures (39%). The prevalence of using only one measure has decreased from 59% in 2008 to 40% in 2010.

Short-Term Incentive Plans

<i>Number of Measures</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
1	28%	30%	35%
2	32%	30%	35%
3	24%	20%	18%
4	11%	14%	5%
5	2%	4%	4%
6 or more	3%	2%	3%

Long-Term Incentive Plans

<i>Number of Measures</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
1	41%	46%	59%
2	39%	38%	27%
3	15%	14%	10%
4 or more	5%	2%	4%

WEIGHTS ON MEASURES

Not only are income goals most prevalent, the weighting assigned to them tends to be relatively high. For example, the weight on EPS in STIPs tends to be higher than the weights on revenue or return measures. Since LTIPs normally use just one or two measures, weights are usually 50% or 100%. [\(Appendix 1, Table 1\)](#)

ABSOLUTE VS. RELATIVE MEASURES

All companies with STIPs used at least one absolute measure to evaluate performance. But less than 7% of STIPs included at least one relative measure, which was slightly lower than in 2009.

Of the 78% of companies with LTIPs, 55% of companies used at least one relative measure in their 2010 LTIP design, up from 50% in 2009 and 46% in 2008. Seventy-three percent (73%) of these companies used TSR as the relative measure in 2010 as compared with 77% in both 2009 and 2008. Seventy-one percent (71%) of companies used at least one absolute measure in their plan.

SHORT-TERM INCENTIVE PLANS

PERFORMANCE LEVELS

For short-term incentives, we had seen a “flattening” of the performance/payout curve the previous three years, meaning that threshold performance levels had been lowered along with payouts for these award levels while maximum performance levels had been increased with no additional upside payout potential. We believe this was in response to the weak economy and the uncertainty that companies felt in setting goals.

With an economic recovery in place, albeit somewhat tepid, threshold performance levels as a percent of target increased in 2010 over the lower levels seen in 2009. Just 4% of thresholds were less than 50% of target in 2010 as compared with 12% in 2009. Moreover, the percent of thresholds that were 90% to 99% of target increased in 2010 (from 35% in 2009 to 43% in 2010).

Maximum performance limits, expressed as a percent of target performance, dropped in 2010. For caps set at greater than 125% of target, 23% of companies in 2010 were in this category as compared to 27% in 2009. Both years were higher than the 19% of companies in 2008. As a result, the performance bands for 2010 were much narrower than for 2009 and getting close to 2008 ranges. This could be a reflection of greater certainty in the expected performance of companies while also limiting risk in the incentive structure. [\(Appendix 1, Tables 2 – 3\)](#)

PAYOUT LEVELS

For STIPs, the most common payout range (threshold to maximum) was 0% to 200% (used by 29% of companies in 2010). The next most common were 50% to 200% and 50% to 150%, with prevalence of 7% and 6%, respectively.

STIP threshold payout percentages have drifted downward with 44% of companies eliminating cut-offs (e.g. 50% of target) and extending payouts to begin at just over 0%. Seventy-three percent (73%) of threshold payout levels were below 50% of target. The maximum payout percentages of target reversed their decline in 2009. The most prevalent maximum was 200%, which was seen in over half the companies (53%). Meanwhile, the 150% maximum dropped from 13% prevalence to 7%. ([Appendix 1, Tables 4 – 6](#))

PERFORMANCE-PAYOUT RELATIONSHIPS

We reviewed the most typical performance-payout curves or relationships. This is defined as the performance threshold as a percent of target and the performance maximum as a percent of target as compared to the payout percentages of target at threshold and maximum performance.

There were no typical performance vs. payout combinations in 2010; in fact, the most common combination only had a prevalence of 5.2%. We have included in the Appendix the six most prevalent combinations of performance ranges for absolute measures in 2010 as compared with 2009. Growth targets (versus absolute performance levels) usually have wider performance ranges.

Threshold performance targets as a percent of target increased in 2010, while the payout thresholds as a percent of target declined. This suggests an expectation of improved performance but not a willingness to pay executives at the same level as last year for this level of performance.

STIP maximum performance goals as a percent of target performance declined in 2010 (at least at the higher levels) but are still above 2008 levels. Maximum payouts as a percentage of target payouts tended to increase in 2010 and are similar to levels in 2008. ([Appendix 1, Tables 7 – 9](#))

Long-Term Incentive Programs

LONG-TERM INCENTIVE MIX (PREVALENCE AND VALUE)

One of the primary topics when designing a long-term incentive program is what types of vehicles should be used. To answer this question, proxy statements were reviewed to determine the most prevalent LTI mixes. Eighty-one percent (81%) of companies granting equity in 2010 used more than one type of long-term incentive vehicle in their program, slightly higher than 80% in 2009. For purposes of this study, long-term incentive grants were categorized into one of five groups:

- Appreciation Rights (plain vanilla stock options and stock appreciation rights)–**SO**
- Restricted stock and restricted stock units (time based)–**RS**
- Performance restricted stock and restricted stock units–**PRS**
- Performance shares, performance share units, premium/performance stock options–**PS**
- Long-term cash plans–**LTI CASH**

Prevalence of Long-Term Incentives

<i>Grant Type</i>	<i>Percent of Companies Making Grants*</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
Stock Options	71%	71%	76%
SARs	4%	5%	6%
Restricted Stock/Units	57%	55%	48%
Any Type of Performance-Based Award	77%	75%	76%
<i>Performance Shares/ Units</i>	60%	54%	55%
<i>Performance Restricted Stock/Units</i>	11%	13%	11%
<i>Performance/Premium Stock Options</i>	2%	3%	3%
<i>Long-Term Cash</i>	18%	20%	20%

* Company-by-company prevalence detail is provided in Appendix 5

Average Long-Term Incentive Mix

<i>Grant Type</i>	<i>Average Mix</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
Stock Options/SARs	34%	37%	40%
Restricted Stock/Units	23%	22%	19%
Performance-Based Stock/Cash	43%	41%	41%

The shifting of long-term incentive programs away from stock options and towards performance-based plans, which has been taking place since 2004, continued in 2010 but at a slower pace. The presence of stock options was on par with 2009 with 71% of companies granting stock options in 2010 and 2009. We observed that in 2009, companies shifted toward time-vested restricted stock/units and continued this increased usage in 2010.

However, the share of stock options within a company's LTI mix is continuing to decline with the offsetting increases shared by both performance-based awards and time-vested restricted stock/units.

Most Prevalent LTI Value Mix

<i>LTI Mix</i>	<i>Percent of Companies*</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
100% SO	5.2%	7.4%	8.8%
50% SO / 50% PS	7.8%	3.7%	6.1%
50% SO / 50% PRS	1.0%	1.6%	5.5%
100% PS	8.3%	6.9%	4.4%
100% RS	4.7%	5.3%	4.4%
50% SO / 50% RS	4.7%	4.2%	2.8%
60% SO / 40% RS	0.5%	1.1%	2.8%

**See Appendix 5 for details by company.*

The most common blends using three equity vehicles are:

- 40% SO, 30% RS, 30% PS (2.1% prevalence)
- 30% SO, 30% RS, 40% LTI CASH (1.6% prevalence)

The decline in stock option use can be seen in the declining prevalence of stock options over the past several years and with a declining weight of the total LTI value. High-weight stock options (weight of 51% or more) have declined from 28% in 2008 to just 18% in 2010.

On the other hand, we found an increase in performance shares with weights in the range of 50% to 70% of the total LTI value. This corresponds with a slight decline in time-based restricted stock weights within that same range, but an increase in the 30% to 50% weight range. [\(Appendix 2, Tables 1 – 3\)](#)

DETAILS ON PERFORMANCE-BASED PROGRAMS (“LTIPS”)

PERFORMANCE LEVELS

As mentioned previously, there are basically two types of performance-based awards: performance restricted stock/units (which we define as restricted stock/units with a performance hurdle and where maximum payout equals target) and performance shares/units or long-term cash plans (where the typical structure is threshold/target/maximum performance and payouts levels). There was a slight decrease in the use of performance restricted stock/units in 2010, but this was offset by an increase in performance share/unit plans.

Regarding threshold levels for absolute performance goals, there was an upward shift in 2010 for thresholds set at 80% or higher of target (from 54% in 2008 and 2009 to 58% in 2010). On the low end, there has been little change since 2008: 30% of companies set threshold performance levels at less than 70% of target in 2010 as compared with 27% of companies in 2009 and 33% in 2008.

With regards to maximum performance levels, or caps, percentages are much more concentrated than in years past. There is a higher concentration of maximums between 110% and 125% of target, with a corresponding decrease in limits between 101% and 109% and also above 200%.

Threshold performance for relative measures continues to be concentrated at the 25th percentile of performance (47% prevalence). Not surprisingly, relative targets were most often set at the 50th percentile (67% prevalence). Maximum performance resulting in maximum payout levels were most often set at either the 75th percentile (34%) or the 100th percentile (27%). In fact, no companies reported a maximum percentile of less than the 75th in 2010, down from 7% prevalence in 2009. ([Appendix 2, Tables 4 – 9](#))

PAYOUT LEVELS

For LTIPs, there was a more even distribution between the payout ranges than we saw with STIPs. However, the range of 0% to 200% continued to increase in use in lock-step with the decline in the 50% to 200% range, which is still the next most frequently used range. The third most often used range was 50% to 150%, which changed little in prevalence from the past two years.

Unlike STIP payout thresholds, LTIP thresholds extending down to 0% of target stabilized at 29%, the same as in 2009. However, the use of a 50% payout threshold continues to decline as the under-50% thresholds increase. We did not find significant changes to the maximum payout percentages.

([Appendix 2, Tables 10 – 12](#))

PERFORMANCE-PAYOUT RELATIONSHIPS

We reviewed the most typical performance-payout relationships in LTIPs, similar to the analysis we discussed previously for STIPs. For absolute measures, there is considerable variability in performance and payout relationships. For companies disclosing a full set of metrics, there were three performance-payout combinations that were slightly more common than the rest. In all three cases, the performance threshold was 90% of target (maximum performance level varied) and the payout maximum was 200% of target (threshold payout varied).

The performance-payout curve for relative measures is also quite diverse with no conclusive results. The top five performance-payout combinations, in total, comprise just about one-quarter of the 41 different primary combinations reported. ([Appendix 2, Tables 13 - 18](#))

DETAILED OBSERVATIONS OF DISCLOSURES

INTRODUCTION

Beginning with the 2008 proxy season, the SEC has required that companies disclose their performance measures and goals and resulting payout levels (otherwise known as the pay-for-performance formula).

Since the proxy disclosure rules require that all performance measures and goals be released and compared with actual results (including both short- and long-term incentive performance measures), we expected to see an increase in the number of companies disclosing these characteristics of their incentive plan designs over the last three years.

In addition, because investors are increasingly aware of executive compensation issues and are interested to see if pay corresponds with performance, particularly with Say-on-Pay in place, we continue to be surprised at the lack of disclosure regarding performance goals and measures, particularly threshold and maximum levels. However, for companies with STIPs in 2010, we witnessed a marked improvement in the reporting of performance results as compared with performance targets.

In 2010, 78% disclosed specific results versus target, up from 66% in 2009 and 59% in 2008. Still, there is room for improvement. LTIP reporting has also improved but in less dramatic fashion, with gains of 3% to 5% each year.

PREVALENCE OF DISCLOSURE OF PERFORMANCE MEASURES AND TARGETS

While most companies are disclosing the type of performance measures and/or weights (in the case of more than one measure) used in their incentive programs, they are not routinely disclosing the performance levels (numerical value) that need to be achieved in order to receive threshold, target or maximum awards. This makes it difficult for investors to determine whether bonus payouts or shares earned are consistent with the pre-established goals.

Our study indicates that among companies with STIPs that are awarded based on achievement of predetermined performance levels, 53% included a complete set of metric values (e.g. threshold, target, and maximum) and corresponding payouts in 2010, up from just 42% in 2009 and 39% for 2008. Of the companies with LTIPs, a higher percentage reported a complete set of metric values for either current year grants or vested grants (71% in 2010 versus 68% in 2009 and 63% in 2008). While we saw very good improvement in both STIP and LTIP disclosure, many companies still do not provide the full story.

As shown in the tables on the following pages, more companies are willing to disclose their LTIP measures than their STIP measures. Part of this willingness could be due to the fact that the performance measures used in LTIPs are often based on relative measures, which do not require the disclosure of actual company-set performance goals.

The disclosure of performance measures for short-term incentive plans had remained relatively flat until 2010, when full compliance increased to over 50% for the first time over the past five years we have studied. Nevertheless, the reporting of threshold, target, and maximum values is relatively low. This could be the result of two factors: (1) the continued increase in the use of inside/outside incentive plans with discretionary payouts, and (2) the increased use of bonus pools with individual payouts based on a number of listed factors without metrics or with limited metrics or hurdles. After removing inside/outside plans from the sample, 60% provided complete metric values on at least one measure in 2010.

LACK OF INFORMATION ON PAY-FOR-PERFORMANCE RELATIONSHIP

THRESHOLD, TARGET, MAXIMUM

To assess disclosure practices, we analyzed how many companies provided performance measures and weights, and what level of performance would equate to threshold, target, and maximum payout. We considered a company to have adequate disclosure when the company included the following information:

- Threshold performance levels;
- Target performance levels;
- Maximum performance levels;
- Threshold payout levels;
- Target payout levels; and
- Maximum payout levels.

For determining adequate disclosure, all measures were reviewed for each company, and if any one measure included all three values—threshold, target, and maximum as applicable—we categorized the company as providing adequate disclosure.

The percentage of companies not disclosing any of their LTIP performance goals increased slightly in 2010 but was relatively consistent with the past two years. For STIPs, the percentage of companies not disclosing performance goals decreased significantly in 2010. The table below provides more detail regarding the reporting of threshold, target, and maximum values in cases where reporting of three metrics is “required”. These percentages reflect a “best case” situation, or the most metrics reported for any given measure at each company. In other words, even if certain measures are not completely reported, if one or more measure included a threshold, target, and maximum value, we considered it to be “complete” reporting. However, it is worth noting that when accounting for all STIP measures at each company, 48% reported a complete set of values for all performance measures, a little lower than the “best case” of 53%.

Metric Disclosure Compliance*

<i>Number of Metrics Reported (Threshold, Target, Maximum)</i>	<i>2010</i>		<i>2009</i>		<i>2008</i>	
	<i>STIPs</i>	<i>LTIPs</i>	<i>STIPs</i>	<i>LTIPs</i>	<i>STIPs</i>	<i>LTIPs</i>
No Metrics Reported	8%	16%	18%	14%	16%	17%
One Metric Reported (typically target)	29%	9%	29%	12%	33%	13%
Two Metrics Reported	10%	4%	12%	5%	12%	7%
Three Metrics Reported (adequate disclosure)*	53%	71%	42%	68%	39%	63%

**Important Point to Note: The above percentages are based on companies that have disclosed at least one complete set of metrics for one or more measures. If a company does not have an LTIP or STIP with a threshold, target and/or maximum structure, they are not included in the above computation. Furthermore, if a company has a discretionary bonus plan, they are also excluded from the computation.*

Because inside/outside plans have become much more common in the last few years, we further refined our analysis to look separately at companies with inside/outside plans from those without. The table below shows that companies with inside/outside plans are less likely to report all three metrics, but do a better job at reporting at least one metric than those without this type of plan

Disclosure of STIP Metrics

<i>Metrics Disclosed</i>	<i>STIPs-All</i>	<i>STIPs- Inside/Outside</i>	<i>STIPs-Excl. Inside/Outside</i>
None Reported	8%	3%	9%
One Metric Reported (typically target)	29%	42%	20%
Two Metrics Reported	10%	11%	11%
Three Metrics Reported (full disclosure as required by the SEC)	53%	45%	60%

For this latest study, we also reviewed the degree of compliance for all disclosed STIP measures. For example, if a company disclosed three measures comprising their STIP, did they disclose values and weights for threshold, target, and maximum for all three measures? This more rigorous test produces similar results but a higher level of none reported and a lower level of full reporting.

Disclosure of STIP Metrics – Degree of Compliance

<i>Metrics Disclosed</i>	<i>STIPs-All</i>
None Reported	15%
One Metric Reported (typically target)	28%
Two Metrics Reported	9%
Three Metrics Reported (full disclosure as required by the	48%

When reviewing all disclosed STIP measures, 22% of measures had no disclosed target values.

THE IMPORTANCE OF DISCLOSURE

The study found that while incentive plans enhance executive performance, more information needs to be revealed to investors. Though the requests by the SEC seem straightforward, implementation is proving to be difficult. This is especially true for financial executives, whose involvement is critical, but who also are already burdened by Sarbanes-Oxley compliance and other financial issues that arise on a daily basis. With the advent of Say-on-Pay, disclosure of measures and metrics has become even more important, as pay-for-performance is the key driver in investor votes on executive compensation.

While LTIP metrics often include the use of relative measures and are easier to report than STIPs, it is troubling to see companies providing few or no metrics at all in situations where non-discretionary plans are in place. Even though it is understandable that companies may not want to include specific performance targets that could reveal competitive information, they can still do a better job of explaining the difficulty in reaching the goals.

Even when companies have discussed performance goals in their proxy statements, the SEC has not been entirely satisfied with the results. However, the SEC has backed away from their intention of requiring a restatement of the affected SEC filing (typically proxy statement) to include better disclosure of the performance metrics.

Many companies are refusing to comply with the new rules, citing potential competitive harm that could result from disclosure. Another concern of these companies is the possible difference between investor guidance and compensation-related performance goals. In other words, the compensation-related goals may be lower than those disclosed to investors. There are also some companies that prefer keeping their goals flexible and subject to change, which makes disclosure particularly challenging.

Generally, shareholders do not mind if executives are paid above market incentives as long as the performance is above market. Executive compensation disclosure rules attempt to encourage companies to share the pay versus performance story with their investors.

Despite the anxieties some executives may feel toward disclosure, most companies have a positive story to tell and should showcase their performance strategy to shareholders.

Dodd-Frank will eventually require disclosure of pay versus performance (Section 953. Executive Compensation Disclosures) that will continue to put a spotlight on performance measures and metrics, and how this affects company performance.

162(m) Disclosures

For purposes of compliance with IRS Code Section 162(m), the performance goals need to be approved by shareholders. To comply with this requirement, the goals need to be listed in a company's incentive and/or equity plan; care should be taken to ensure that the right performance goals are included in these plans. These goals can be financial (which are most common and have been discussed in earlier sections of this report) and non-financial. As long as an outside party can arrive at the same conclusion as to the level of achievement of the performance goal(s) as the Company, the compensation paid based on this performance is deductible under 162(m). Examples of non-financial goals may be safety incidents for an industrial company and on-time delivery for a transportation company.

The following reports the percentage of companies that did or did not state in their CD&A whether or not their STIPs or LTIPs were tax deductible under 162(m).

SHORT-TERM INCENTIVES

- Sixty-three percent (63%) of companies explicitly stated or designed their short-term incentive compensation program to comply with Section 162(m) (tax deductible compensation).
- Fifteen percent (15%) of companies stated they did not qualify all incentive compensation under 162(m).
- Twenty-two percent (22%) provided no disclosure regarding whether or not incentive compensation qualified under 162(m).
 - Of these companies, it appears 7% (about one-third of the non-disclosures) will likely be tax deductible incentives.

LONG-TERM INCENTIVES

- Fifty percent (50%) of companies explicitly stated or designed their long-term incentive compensation program to comply with Section 162(m).
- Thirty-four percent (34%) of companies did not design their grants to qualify under 162(m) or stated they did not qualify all long-term grants.
- Sixteen percent (16%) of companies did not disclose whether or not their LTI awards were tax deductible.
 - One-half of this group (8% of total) appears not to qualify for LTI tax deductibility.
 - Nearly 20% of this group (3% of total) appears to qualify for LTI tax deductibility.

CONCLUSIONS

This study determined:

- Income/profit measures, including EPS, continue to be the most commonly used short-term incentive measure.
- TSR, EPS, income, and capital efficiency ratios were once again the most commonly used long-term incentive measures in 2010. Capital efficiency measures increased significantly from 31% of companies with LTIPs in 2009 to 41% in 2010.
- Seventy-two percent (72%) of STIPs included multiple performance measures in 2010, an increase from 70% in 2009 and 65% in 2008. To break it down further, 32% of STIPs included two measures, 24% included three measures, and another 16% used four or more performance measures.
- Most companies with long-term incentive plans had either one (41%) or two (39%) performance measures. However there continues to be a shift to the use of more measures as the percentage of companies using only one measure declined (from 59% in 2008 to 41% in 2010). This could be in response to SEC concerns about the risks associated with single performance measures.
- Seventy-three percent (73%) of long term incentive plans with a relative performance measure used TSR in 2010. Sixty-seven percent (67%) of TSR targets were set at the 50th percentile of the comparator group or index.
- Maximum payouts were most often capped at 200% of target for both short-term and long-term incentives (53% for STIPs and 56% for LTIPs).
- Full disclosure of performance metrics (performance and payout levels at threshold, target and maximum) continues to increase but still not as high as it should be.
- Use of inside/outside plans continues to increase as more companies incorporate discretionary/non-formulaic goals in their STIPs but still want the payments to be tax deductible.

APPENDIX 1

SHORT-TERM INCENTIVE DETAILS (SEE APPENDIX 5 FOR DETAILS BY COMPANY)

TABLE 1. WEIGHTS ON MEASURES

Table 1.
Short-Term Incentive Plans

<i>Weights on Measures</i>	<i>EPS</i>	<i>ROA, RONA, ROCE, ROE, ROI, ROIC*</i>	<i>Revenue</i>
1%-25%	22%	41%	61%
26%-49%	28%	31%	34%
50%	20%	5%	5%
51%-75%	17%	9%	0%
76%-99%	2%	9%	0%
100%	11%	5%	0%

* ROA (Return on Assets), RONA (Return on Net Assets), ROCE (Return on Capital Employed), ROE (Return on Equity), ROI (Return on Investment), ROIC (Return on Invested Capital)

TABLES 2 – 3. PERFORMANCE LEVEL AS A PERCENTAGE OF TARGET

Table 2.
STIP: Threshold Performance Percentages

<i>Percent of Target</i>	<i>Percent of Measures</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<50%	4%	12%	10%
50%-69%	10%	8%	6%
70%-79%	13%	19%	9%
80%-89%	23%	24%	25%
90%-99%	43%	35%	48%
100%	7%	2%	1%

Table 3.
STIP: Maximum Performance Percentages

<i>Percent of Target</i>	<i>Percent of Measures</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
100%	6%	2%	1%
101%-104%	11%	11%	9%
105%-109%	14%	21%	28%
110%	9%	6%	13%
111%-115%	15%	16%	13%
116%-119%	4%	3%	2%
120%	10%	9%	12%
121%-125%	8%	5%	3%
126%-149%	14%	9%	6%
150% and over	9%	18%	13%

TABLES 4 – 6. PAYOUT PERCENTAGES

Table 4.
STIP: Threshold/Maximum Payout Ranges

<i>Payout Range</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%-200%	29%	23%	20%
50%-200%	7%	8%	9%
50%-150%	6%	6%	6%

Table 5.
STIP: Threshold Payout Percentages

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	44%	41%	36%
1%-24%	12%	11%	14%
25%	7%	7%	7%
26%-49%	10%	10%	14%
50%	17%	18%	19%
51%-99%	8%	9%	8%
100%	2%	3%	2%

Table 6.
STIP: Maximum Payout Percentages

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
100%	0%	1%	0%
101%-149%	5%	6%	7%
150%	7%	13%	11%
151%-199%	8%	11%	5%
200%	53%	44%	50%
201%-249%	9%	9%	9%
250%	7%	5%	6%
>250%	11%	12%	12%

TABLES 7 – 9. PERFORMANCE-PAYOUT RELATIONSHIPS

Table 7.
Most Prevalent Pay-for-Performance Relationships

<i>Performance/Payout: Threshold to Maximum as a Percentage of Target</i>	<i>2010 Percent of Measures</i>	<i>2009 Percent of Measures</i>
90%-110% / 0%-200%	5.2%	5.0%
90%-120% / 0%-200%	2.1%	1.3%
95%-105% / 50%-150%	2.1%	3.8%
80%-110% / 0%-200%	2.1%	1.3%
80%-115% / 0%-150%	2.1%	0.0%
70%-130% / 50%-150%	2.1%	3.8%

Table 8.
STIP: Statistics of Threshold Performance and Payout

	<i>Threshold Performance Target as a Percentage of Target</i>			<i>Threshold Payout as a Percentage of Target Payout</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	0%	0%	10%	0%	0%	0%
25th Percentile	75%	70%	80%	0%	0%	0%
Median	89%	85%	89%	10%	19%	20%
Average	81%	75%	81%	22%	25%	25%
75th Percentile	94%	91%	93%	50%	50%	50%
Maximum	100%	100%	100%	100%	100%	100%

Table 9.
STIP: Statistics of Maximum Performance and Payout

	<i>Maximum Performance as a Percentage of Target</i>			<i>Maximum Payout as a Percentage of Target Payout</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	100%	100%	100%	125%	100%	100%
25th Percentile	107%	107%	107%	200%	175%	200%
Median	115%	115%	110%	200%	200%	200%
Average	122%	130%	120%	218%	216%	236%
75th Percentile	125%	128%	120%	215%	200%	225%
Maximum	443%	500%	250%	1367%	1629%	1806%

APPENDIX 2

LONG-TERM INCENTIVE DETAILS (SEE APPENDIX 5 FOR DETAILS BY COMPANY)

TABLES 1 – 3. LONG-TERM INCENTIVE MIX (PREVALENCE AND VALUE)

Table 1
Stock Option Weights (CEO)

	<i>Percent of Companies*</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	24%	24%	20%
1%-29.9%	11%	15%	13%
30%-49.9%	30%	23%	26%
50%	17%	14%	13%
51%-69.9%	8%	10%	12%
70%-99.9%	5%	6%	7%
100%	5%	8%	9%

Table 2.
Time-Based Restricted Stock Weights (CEO)

	<i>Percent of Companies*</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	49%	51%	58%
1%-29.9%	16%	18%	14%
30%-49.9%	21%	16%	14%
50%	7%	6%	3%
51%-69.9%	1%	3%	6%
70%-99.9%	1%	1%	1%
100%	5%	5%	4%

Table 3.
Performance-Based Stock Weights (CEO)

	<i>Percent of Companies*</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	22%	25%	23%
1%-29.9%	8%	8%	11%
30%-49.9%	19%	19%	22%
50%	14%	10%	10%
51%-69.9%	18%	16%	14%
70%-99.9%	8%	12%	9%
100%	11%	10%	11%

TABLES 4 – 9. PERFORMANCE LEVELS

Table 4
LTIP: Threshold Performance
Percentages for Absolute Measures

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	4%	7%	7%
1%-49%	12%	5%	12%
50%-69%	14%	15%	14%
70%	6%	5%	8%
71%-79%	6%	14%	5%
80%	11%	7%	5%
81%-89%	12%	12%	13%
90%	12%	8%	4%
91%-95%	16%	22%	18%
96%-99%	7%	4%	14%

Table 5.
LTIP: Maximum Performance
Percentages for Absolute Measures

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
101%-109%	21%	28%	29%
110%-119%	22%	12%	12%
120%	11%	10%	5%
121%-124%	4%	7%	3%
125%	12%	9%	6%
126%-149%	12%	11%	17%
150%	3%	4%	4%
151%-199%	12%	10%	10%
200%	3%	3%	5%
201%-249%	0%	1%	2%
>250%	0%	4%	3%
No Cap	0%	1%	4%

Table 6.
LTIP: Threshold Percentiles for
Relative Measures

<i>Percentile</i>	<i>Percent of Relative LTIP</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0	4%	2%	5%
1 st -24 th	19%	15%	16%
25 th	47%	45%	44%
26 th -34 th	6%	10%	5%
35 th	9%	12%	11%
36 th -39 th	2%	2%	3%
40 th	9%	8%	15%
41 st -49 th	3%	0%	0%
50 th	0%	5%	2%
>50 th	1%	0%	0%

Table 7.
LTIP: Target Percentiles for
Relative Measures

<i>Percentile</i>	<i>Percent of Relative LTIP</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<50 th	7%	7%	12%
50 th	67%	77%	67%
>50 th	26%	17%	21%

Table 8.
LTIP: Maximum Percentiles for
Relative Measures

<i>Percentile</i>	<i>Percent of Relative LTIP</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<75 th	0%	7%	5%
75 th	34%	37%	34%
76 th -79 th	0%	0%	0%
80 th	11%	16%	12%
81 st -89 th	12%	9%	8%
90 th	11%	7%	11%
91 st -99 th	6%	2%	2%
100 th	27%	23%	29%

Table 9.
LTIP: Statistics of Performance Percentiles for Plans with Relative Measures

	<i>Threshold Percentile</i>			<i>Target Percentile</i>			<i>Maximum Percentile</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	9 th	10 th	0	40 th	40 th	25 th	75 th	67 th	50 th
25th Percentile	25 th	25 th	25 th	50 th	50 th	50 th	75 th	75 th	75 th
Median	25 th	25 th	25 th	50 th	50 th	50 th	80 th	83 rd	80 th
Average	27 th	29 th	27 th	52 nd	51 st	51 st	86 th	85 th	81 st
75th Percentile	35 th	35 th	35 th	51 st	50 th	50 th	100 th	100 th	100 th
Maximum	47 th	50 th	50 th	75 th	75 th	80 th	100 th	100 th	100 th

TABLES 10 – 12. PAYOUT LEVELS

Table 10.
LTIP: Threshold/Maximum Payout Ranges

<i>Payout Range</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%-200%	20%	15%	13%
50%-200%	13%	16%	20%
50%-150%	9%	8%	6%

Table 11.
LTIP: Threshold Payout Percentages

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
0%	29%	29%	25%
1%-24%	13%	10%	10%
25%	16%	18%	17%
26%-49%	8%	5%	8%
50%	25%	30%	33%
51%-99%	6%	6%	6%
100%	3%	2%	1%

Table 12.
LTIP: Maximum Payout Percentages

<i>Percent of Target</i>	<i>Percent of Companies</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
100%	7%	8%	5%
101%-149%	5%	6%	3%
150%	17%	19%	21%
151%-199%	4%	2%	3%
200%	56%	55%	54%
201%-249%	2%	3%	3%
250%	1%	4%	4%
> 250%	7%	4%	7%

TABLES 13 - 18. PERFORMANCE-PAYOUT RELATIONSHIPS

Table 13
Most Prevalent Pay-for-Performance Relationships (Absolute Measures)

<i>Performance/Payout: Threshold to Maximum as a % of Target</i>	<i>Percent of Absolute Measures</i>
90% - 120% / 50% -200%	5.1%
90% - 110% / 50% -200%	5.1%
90% - 110% / 0% -200%	5.1%

Table 14.
LTIP: Statistics of Threshold Performance and Payout (Absolute Measures)

	<i>Threshold Performance Goal as a Percentage of Target</i>			<i>Threshold Payout as a Percentage of Target</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	0%	0%	0%	0%	0%	0%
25th Percentile	63%	67%	63%	3%	1%	13%
Median	80%	80%	80%	25%	25%	50%
Average	72%	72%	71%	29%	30%	35%
75th Percentile	90%	91%	92%	50%	50%	50%
Maximum	98%	99%	99%	80%	80%	80%

Table 15.
LTIP: Statistics of Maximum Performance and Payout (Absolute Measures)

	<i>Maximum Performance Goal as a Percentage of Target</i>			<i>Maximum Payout as a Percentage of Target Payout</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	100%	100%	100%	100%	100%	100%
25th Percentile	106%	106%	108%	150%	150%	150%
Median	118%	120%	120%	200%	200%	200%
Average	125%	127%	133%	187%	172%	177%
75th Percentile	131%	133%	141%	200%	200%	200%
Maximum	200%	310%	267%	789%	250%	350%

TABLES 13 - 18. PERFORMANCE-PAYOUT RELATIONSHIPS (CONTINUED)

Table 16.
Most Prevalent Pay-for-Performance Relationships (Relative Measures)

<i>Performance/Payout Percentiles</i>	<i>Percent of Relative Measures</i>
35 th -50 th -75 th / 0%-200%	6.5%
25 th -50 th -75 th / 0%-200%	4.3%
25 th -50 th -75 th / 50%-200%	4.3%
25 th -50 th -90 th / 50%-200%	4.3%
25 th -50 th -100 th / 25%-200%	4.3%

Table 17
LTIP: Statistics of Threshold Performance and Payout (Relative Measures)

	<i>Threshold Performance Goal as a Percentage of Target</i>			<i>Threshold Payout as a Percentage of Target</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	9 th	10 th	0 th	0%	0%	0%
25th Percentile	25 th	25 th	25 th	0%	3%	9%
Median	25 th	25 th	25 th	25%	25%	25%
Average	27 th	28 th	27 th	24%	28%	28%
75th Percentile	35 th	35 th	35 th	50%	50%	50%
Maximum	47 th	50 th	50 th	80%	50%	50%

Table 18.
LTIP: Statistics of Maximum Performance and Payout (Relative Measures)

	<i>Maximum Performance Goal as a Percentage of Target</i>			<i>Maximum Payout as a Percentage of Target Payout</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Minimum	75 th	67 th	66 th	100%	100%	100%
25th Percentile	75 th	75 th	75 th	200%	181%	163%
Median	85 th	83 rd	87 th	200%	200%	200%
Average	86 th	85 th	86 th	189%	190%	187%
75th Percentile	100 th	100 th	100 th	200%	200%	200%
Maximum	100 th	100 th	100 th	300%	300%	300%

APPENDIX 3

S&P 500 LARGE CAP COMPANIES – TOP 200

3M CO	CONAGRA FOODS INC	GOODYEAR TIRE & RUBBER CO
ABBOTT LABORATORIES	CONOCOPHILLIPS	GOOGLE INC
AES CORP	CONSOLIDATED EDISON INC	HALLIBURTON CO
AETNA INC	CONSTELLATION ENERGY GRP INC	HESS CORP
AFLAC INC	COSTCO WHOLESALE CORP	HEWLETT-PACKARD CO
ALCOA INC	COVENTRY HEALTH CARE INC	HOME DEPOT INC
ALLSTATE CORP	CSX CORP	HONEYWELL INTERNATIONAL INC
ALTRIA GROUP INC	CUMMINS INC	HUMANA INC
AMAZON.COM INC	CVS CAREMARK CORP	ILLINOIS TOOL WORKS
AMERICAN ELECTRIC POWER CO	DANAHER CORP	INGERSOLL-RAND CO LTD
AMERICAN EXPRESS CO	DEAN FOODS CO	INGRAM MICRO INC
AMERISOURCEBERGEN CORP	DEERE & CO	INTEGRYS ENERGY GROUP INC
AMGEN INC	DELL INC	INTEL CORP
ANADARKO PETROLEUM CORP	DELTA AIR LINES INC	INTERNATIONAL ASSETS HLDG
APACHE CORP	DEVON ENERGY CORP	INTL BUSINESS MACHINES CORP
APPLE INC	DIRECTV GROUP INC	INTL PAPER CO
ARCHER-DANIELS-MIDLAND CO	DISNEY (WALT) CO	ITT CORP
AT&T INC	DOMINION RESOURCES INC	JABIL CIRCUIT INC
AUTONATION INC	DONNELLEY (R R) & SONS CO	JACOBS ENGINEERING GROUP INC
BAKER HUGHES INC	DOW CHEMICAL	JOHNSON & JOHNSON
BANK OF AMERICA CORP	DU PONT (E I) DE NEMOURS	JOHNSON CONTROLS INC
BANK OF NEW YORK MELLON CORP	DUKE ENERGY CORP	JPMORGAN CHASE & CO
BAXTER INTERNATIONAL INC	EATON CORP	KELLOGG CO
BEST BUY CO INC	EDISON INTERNATIONAL	KIMBERLY-CLARK CORP
BOEING CO	EMC CORP	KOHL'S CORP
BRISTOL-MYERS SQUIBB CO	EMERSON ELECTRIC CO	KRAFT FOODS INC
CAPITAL ONE FINANCIAL CORP	ENTERGY CORP	KROGER CO
CARDINAL HEALTH INC	EXELON CORP	L-3 COMMUNICATIONS HLDGS INC
CARNIVAL CORP/PLC (USA)	EXPRESS SCRIPTS INC	LILLY (ELI) & CO
CATERPILLAR INC	EXXON MOBIL CORP	LOCKHEED MARTIN CORP
CBS CORP	FEDEX CORP	LOEWS CORP
CENTERPOINT ENERGY INC	FIRSTENERGY CORP	LOWE'S COMPANIES INC
CHESAPEAKE ENERGY CORP	FLUOR CORP	MACY'S INC
CHEVRON CORP	FORD MOTOR CO	MARATHON OIL CORP
CHUBB CORP	FPL GROUP INC	MARRIOTT INTL INC
CIGNA CORP	FREEMPORT-MCMORAN COP&GOLD	MARSH & MCLENNAN COS
CISCO SYSTEMS INC	GAP INC	MASTERCARD
CITIGROUP INC	GENERAL DYNAMICS CORP	MCDONALD'S CORP
COCA-COLA CO	GENERAL ELECTRIC CO	MCKESSON CORP
COCA-COLA ENTERPRISES INC	GENERAL MILLS INC	MEDCO HEALTH SOLUTIONS INC
COLGATE-PALMOLIVE CO	GENERAL MOTORS	MEDTRONIC INC
COMCAST CORP	GILEAD SCIENCES INC	MERCK & CO
COMPUTER SCIENCES CORP	GOLDMAN SACHS GROUP INC	METLIFE INC
		MICROSOFT CORP

S&P 500 LARGE CAP COMPANIES – TOP 200

MONSANTO CO	PRUDENTIAL FINANCIAL INC	TRAVELERS COS INC
MORGAN STANLEY	PUBLIC SERVICE ENTERPRISE GRP INC	TYCO ELECTRONICS LTD
MOTOROLA SOLUTIONS INC	QUALCOMM INC	TYSON FOODS INC
MURPHY OIL CORP	QWEST COMMUNICATION INTL INC	U S BANCORP
NATIONAL OILWELL VARCO INC	RAYTHEON CO	UNION PACIFIC CORP
NEWS CORP	SAFEWAY INC	UNITED PARCEL SERVICE INC
NIKE INC	SARA LEE CORP	UNITED STATES STEEL CORP
NORFOLK SOUTHERN CORP	SCHLUMBERGER LTD	UNITED TECHNOLOGIES CORP
NORTHROP GRUMMAN CORP	SEARS HOLDINGS CORP	UNITEDHEALTH GROUP INC
NUCOR CORP	SOUTHERN CO	VALERO ENERGY CORP
OCCIDENTAL PETROLEUM CORP	SPRINT NEXTEL CORP	VERIZON COMMUNICATIONS INC
OFFICE DEPOT INC	STAPLES INC	VIACOM INC
OMNICOM GROUP	STATE STREET CORP	WALGREEN CO
ORACLE CORP	SUNOCO INC	WAL-MART STORES INC
PACCAR INC	SUNTRUST BANKS INC	WASTE MANAGEMENT INC
PARKER-HANNIFIN CORP	SUPERVALU INC	WELLPOINT INC
PENNEY (J C) CO	SYSCO CORP	WELLS FARGO & CO
PEPSICO INC	TARGET CORP	WHIRLPOOL CORP
PFIZER INC	TESORO CORP	WILLIAMS COS INC
PG&E CORP	TEXAS INSTRUMENTS INC	XCEL ENERGY INC
PHILIP MORRIS INTERNATIONAL	TEXTRON INC	XEROX CORP
PPG INDUSTRIES INC	TIME WARNER CABLE INC	YUM BRANDS INC
PROCTER & GAMBLE CO	TIME WARNER INC	
PROGRESSIVE CORP	TJX COMPANIES INC	

APPENDIX 4

SUMMARY OF TOP 200 COMPANIES BY INDUSTRY CODE

<i>Global Industrial Classification Sector (GICS)</i>	<i>Percentage of Companies</i>
Capital Goods	12.0%
Energy	9.5%
Utilities	8.5%
Retailing	7.0%
Food Beverage & Tobacco	6.5%
Health Care Equipment & Services	6.5%
Technology Hardware & Equipment	6.0%
Diversified Financials	5.0%
Insurance	4.5%
Materials	4.5%
Media	4.5%
Food & Staples Retailing	4.0%
Pharmaceuticals, Biotechnology & Life Sciences	4.0%
Transportation	3.0%
Software & Services	2.5%
Automobiles & Components	2.0%
Consumer Services	2.0%
Telecommunication Services	2.0%
Banks	1.5%
Household & Personal Products	1.5%
Commercial Services & Supplies	1.0%
Consumer Durables & Apparel	1.0%
Semiconductors & Semiconductor Equipment	1.0%

APPENDIX 5

Executive Grant Type Usage by Company

Executive Compensation Long Term Grants

	Stock Options	Premium/ Performance Stock Options	SARs	Time-Based Restricted Stock/Units	Performance Restricted Stock/Units	Performance Shares/Units	Long-Term Cash
3M CO	■			■		▲	
ABBOTT LABORATORIES	■				■		
AES CORP	■					■	■
AETNA INC			●	■		■	
AFLAC INC	■				■		
ALCOA INC	●			■		▲	
ALLSTATE CORP	■			■			
ALTRIA GROUP INC				■			
AMAZON.COM INC				▲			
AMERICAN ELECTRIC POWER CO						■	
AMERICAN EXPRESS CO	■				▲		■
AMERISOURCEBERGEN CORP	■			■			
AMGEN INC	■			■		■	
ANADARKO PETROLEUM CORP	■			■		■	
APACHE CORP	■			■			
APPLE INC				■			
ARCHER-DANIELS-MIDLAND CO	■			■	■		
AT&T INC				▲		■	
AUTONATION INC	■						
BAKER HUGHES INC	■			■			■
BANK OF AMERICA CORP							
BANK OF NEW YORK MELLON CORP	■			■			
BAXTER INTERNATIONAL INC	■					■	
BEST BUY CO INC	■						
BOEING CO	■			■		●	▲
BRISTOL-MYERS SQUIBB CO	●			■		■	
CAPITAL ONE FINANCIAL CORP	■			■		■	
CARDINAL HEALTH INC	■			■			●
CARNIVAL CORP/PLC (USA)				■			
CATERPILLAR INC			■	■			■
CBS CORP	■			▲	■		
CENTERPOINT ENERGY INC					■	■	
CHESAPEAKE ENERGY CORP				■			
CHEVRON CORP	■					■	
CHUBB CORP				■		■	
CIGNA CORP	■					■	
CISCO SYSTEMS INC	▲			■	●		
CITIGROUP INC				■			

Executive Grant Type Usage by Company

Executive Compensation Long Term Grants

	Stock Options	Premium/ Performance Stock Options	SARs	Time-Based Restricted Stock/Units	Performance Restricted Stock/Units	Performance Shares/Units	Long-Term Cash
COCA-COLA CO	■					▲	
COCA-COLA ENTERPRISES INC	▲					■	
COLGATE-PALMOLIVE CO	■				▲		●
COMCAST CORP	■				■		
COMPUTER SCIENCES CORP	■			■	▲		
CONAGRA FOODS INC	■					■	
CONOCOPHILLIPS	■					■	
CONSOLIDATED EDISON INC						■	
CONSTELLATION ENERGY GRP INC	■					■	
COSTCO WHOLESALE CORP					■		
COVENTRY HEALTH CARE INC	■				●	▲	
CSX CORP				■		■	
CUMMINS INC	■					■	■
CVS CAREMARK CORP	■			■			■
DANAHER CORP	■				■		
DEAN FOODS CO	■			■			▲
DEERE & CO	■			■		▲	●
DELL INC	■					■	
DELTA AIR LINES INC				■		■	
DEVON ENERGY CORP	■			■			
DIRECTV GROUP INC						■	
DISNEY (WALT) CO	■					■	
DOMINION RESOURCES INC				■			■
DONNELLEY (R R) & SONS CO	■			■			
DOW CHEMICAL	■			■		■	
DU PONT (E I) DE NEMOURS	■			■		■	
DUKE ENERGY CORP	■			■		■	
EATON CORP				■	●		■
EDISON INTERNATIONAL	■			■		■	
EMC CORP/MA	■	■		■	■		
EMERSON ELECTRIC CO	●			■		▲	
ENTERGY CORP	■					■	
EXELON CORP	■					■	
EXPRESS SCRIPTS INC	■			■		■	
EXXON MOBIL CORP				■			
FEDEX CORP	■			■			●
FIRSTENERGY CORP						■	
FLUOR CORP	■			■			●
FORD MOTOR CO	■					■	
FPL GROUP INC	■				■	■	
FREEMPORT-MCMORAN COP&GOLD	■			▲			

Executive Grant Type Usage by Company

Executive Compensation Long Term Grants

	Stock Options	Premium/ Performance Stock Options	SARs	Time-Based Restricted Stock/Units	Performance Restricted Stock/Units	Performance Shares/Units	Long-Term Cash
GAP INC	■			■		■	
GENERAL DYNAMICS CORP	■			■			
GENERAL ELECTRIC CO.	■			■	●		▲
GENERAL MILLS INC	■			■			
GENERAL MOTORS CORP				■			
GILEAD SCIENCES	■					■	
GOLDMAN SACHS GROUP INC				■			
GOODYEAR TIRE & RUBBER CO	■					■	■
GOOGLE INC	▲			▲			
HALLIBURTON CO	■			■			■
HESS CORP	■			■			
HEWLETT-PACKARD CO				■		■	
HOME DEPOT INC	▲	●			■	■	
HONEYWELL INTERNATIONAL INC	■			■	▲		▲
HUMANA INC	■						
ILLINOIS TOOL WORKS	■				■		▲
INGERSOLL-RAND CO LTD	■			■		■	
INGRAM MICRO INC					■	■	●
INTEGRYS ENERGY GROUP INC	■			■		■	
INTEL CORP	■			■		■	
INTERNATIONAL ASSETS HLDG	●			■			
INTL BUSINESS MACHINES CORP						■	
INTL PAPER CO						■	
ITT CORP	■			■			■
JABIL CIRCUIT INC				■		■	
JACOBS ENGINEERING GROUP INC	■			▲			
JOHNSON & JOHNSON	■			■			■
JOHNSON CONTROLS INC	■			■			■
JPMORGAN CHASE & CO			■	■			
KELLOGG CO	■					■	
KIMBERLY-CLARK CORP	■					■	
KOHL'S CORP	■			●			
KRAFT FOODS INC	■			■		■	
KROGER CO	■			■		▲	■
L-3 COMMUNICATIONS HLDGS INC	■			■		■	
LILLY (ELI) & CO						■	
LOCKHEED MARTIN CORP	■				■		■
LOEWS CORP			■				
LOWE'S COMPANIES INC	■			■			
MACY'S INC	■					■	
MARATHON OIL CORP	■			■			■
MARRIOTT INTL INC			■	■			

Executive Grant Type Usage by Company

Executive Compensation Long Term Grants

	Stock Options	Premium/ Performance Stock Options	SARs	Time-Based Restricted Stock/Units	Performance Restricted Stock/Units	Performance Shares/Units	Long-Term Cash
MARSH & MCLENNAN COS	■			■			
MASTERCARD	■					■	
MCDONALD'S CORP	■					■	■
MCKESSON CORP	■					■	■
MEDCO HEALTH SOLUTIONS INC	■			■			
MEDTRONIC INC	■				■		■
MERCK & CO	■			■		■	
METLIFE INC	■					■	
MICROSOFT CORP				■			
MONSANTO CO	■					■	
MORGAN STANLEY	▲			■		■	■
MOTOROLA INC	■			■			■
MURPHY OIL CORP	■				■		
NATIONAL OILWELL VARCO INC	■				■		
NEWS CORP				■			
NIKE INC -CL B	■			■			■
NORFOLK SOUTHERN	■			■		■	
NORTHROP GRUMMAN CORP	■					■	
NUCOR CORP	▲			■			■
OCCIDENTAL PETROLEUM CORP					▲	■	●
OFFICE DEPOT INC	■	■					
OMNICOM GROUP	●					▲	
ORACLE CORP	■						
PACCAR INC	■			●			■
PARKER-HANNIFIN CORP	■					■	
PENNEY (J C) CO	■			▲	●	▲	
PEPSICO INC	■					■	
PFIZER INC			●	■	■		■
PG&E CORP				■		■	
PHILIP MORRIS INTERNATIONAL				■			
PPG INDUSTRIES INC	■			●		■	
PROCTER & GAMBLE CO	■			■			●
PROGRESSIVE CORP-OHIO				■		■	
PRUDENTIAL FINANCIAL INC	■			●	▲	▲	
PUBLIC SERVICE ENTRP GRP INC	●			▲		■	
QUALCOMM INC	■					▲	
QWEST COMMUNICATION INTL INC				■		■	
RAYTHEON CO				■		■	
SAFEWAY INC	■			■			
SARA LEE CORP	■			▲		■	
SCHLUMBERGER LTD	■						

Executive Grant Type Usage by Company

Executive Compensation Long Term Grants

	Stock Options	Premium/ Performance Stock Options	SARs	Time-Based Restricted Stock/Units	Performance Restricted Stock/Units	Performance Shares/Units	Long-Term Cash
SEARS HOLDINGS CORP							■
SOUTHERN CO	■					▲	●
SPRINT NEXTEL CORP	■				▲		■
STAPLES INC	■			■		●	▲
STATE STREET CORP						■	
SUNOCO INC	■			▲		■	
SUNTRUST BANKS INC	●	●		●	■		
SUPERVALU INC	■		●			●	
SYSCO CORP	■			▲			■
TARGET CORP	■			■		■	
TESORO CORP	■			■		▲	
TEXAS INSTRUMENTS INC	■			■			
TEXTRON INC	■			■		●	■
TIME WARNER CABLE INC	■			■		■	
TIME WARNER INC	■			■		■	
TJX COMPANIES INC	■				■		■
TRAVELERS COS INC	■					■	
TYCO ELECTRONICS LTD	■			■			
TYSON FOODS INC -CL A	■			▲		■	
U S BANCORP	■					■	
UNION PACIFIC CORP	■			■		■	
UNITED PARCEL SERVICE INC	■			■		■	
UNITED STATES STEEL CORP	■			■		■	
UNITED TECHNOLOGIES CORP		■				■	
UNITEDHEALTH GROUP INC			■	■		■	■
VALERO ENERGY CORP	■			■		▲	
VERIZON COMMUNICATIONS INC				■		■	
VIACOM INC	■					■	
WALGREEN CO	■			■		■	
WAL-MART STORES INC				■		■	
WASTE MANAGEMENT INC	▲					■	
WELLPOINT INC	■			■		■	
WELLS FARGO & CO	■			●		■	
WHIRLPOOL CORP	●				●	▲	●
WILLIAMS COS INC	■			■		■	
XCEL ENERGY INC					■	■	
XEROX CORP						■	●
YUM BRANDS INC			■			■	

ABOUT JAMES F. REDA & ASSOCIATES

A DIVISION OF GALLAGHER BENEFIT SERVICES

James F. Reda & Associates, a Division of Gallagher Benefit Services, is a nationally-recognized executive compensation and corporate governance consulting firm. Headquartered in New York, New York with a satellite office in Atlanta, Georgia, our principal consultants have over 70 years of combined experience in compensation consulting. Our consultants are quoted frequently in leading media publications such as Business Week, Forbes, Fortune, The New York Times, and The Wall Street Journal.

Our firm has extensive experience in the areas of equity awards, compensation committee advisory services, incentive programs of all kinds, and the performance evaluation and goal-setting process. We work with clients from the following industries: financial services, health-care, life-science, technology, retail, and manufacturing. We have substantial experience working with private companies.

James Reda has close to 25 years of experience in the field and has authored two books on the subject of executive compensation and the role of the compensation committee, entitled *Pay to Win: How America's Successful Companies Pay Their Executives* (Harcourt: 2000) and *The Compensation Committee Handbook* (John Wiley: 2007), the fourth edition will be available in 2012. Mr. Reda served as a commissioner on the Task Force "Executive Compensation and the Role of the Compensation Committee," assembled by the National Association of Corporate Directors. In addition, he served on the Conference Board Task Force on Executive Compensation. Mr. Reda is also a member of a task force created by the pre-eminent trade group, the National Association of Stock Plan Professionals, in order to rationalize executive compensation.

Our Services Include:

- Advising compensation committees on all executive compensation matters
- Providing corporate governance advice with respect to executive and board compensation
- Benchmarking total compensation, including: base salary, short-term incentives, long-term incentives, executive benefits and perquisites
- Assisting with all aspects of short- and long-term incentive plan design, including: tax, accounting, and SEC implications of such arrangements
- Working with companies to determine competitive employment agreement plan designs
- Providing expert witness testimony, opinion, and litigation support
- Evaluating CEO, other senior executives and boards and committees
- Providing assumption analysis and expense calculation for FASB ASC Topic 718 purposes
- Designing executive ownership guidelines and capital accumulation programs
- Reviewing special situation incentives associated with IPOs, business units, partnerships, distressed companies, and mergers & acquisitions
- Designing deferred compensation, supplemental executive retirement programs (SERPs) and other executive perquisite and benefit programs
- Designing change-in-control and severance programs