



Say-on-Pay Why Your Company Should Understand It, Whether You Have Shareholders or Not



Tom Wilson, President, The Wilson Group

Robert Mattson, Workscope

Workscope, An ADP Company History



Global Customers

- IBM
- Raytheon
- Baker Hughes
- Dell
- FedEx Ground
- State Street Bank

Compensation Planning for focal and off-cycle since 1999

Global Facilities

- Boston
- Atlanta
- Boise
- Hong Kong
- Germany



August 2010

workscape[®]
An **ADP** Company

Facts

- Over 3,000,000 users world-wide
- Over \$125 billion in compensation managed

workscape[®]

Founded 1999 by
CEO - Tim Clifford

workscape[®]
An **ADP** Company



Thomas B. Wilson
President



www.WilsonGroup.com
twilson@Wilsongroup.com

Our mission:

“To strengthen the competitive advantages of our clients by aligning all performance based reward systems with the strategies they need to succeed.”

- Executive and Board of Directors Total Compensation
- Sales Effectiveness and Total Compensation
- Employee Total Rewards
 - ✓ Base pay plan design
 - ✓ Variable pay plan design
 - ✓ Equity pay plan design
 - ✓ Performance management
 - ✓ Performance recognition

Publications and Resources:

Innovative Reward Systems for the Changing Workplace (McGraw-Hill, revised 2003)

Rewards that Drive High Performance: Success Stories from Leading Organizations (1999)

Survey Report: Changes in Equity-Based Compensation Programs – 2006

Special Report: Changes in Variable Pay Program - 2007





Say-on-Pay

*Why Your Company Should
Understand It, Whether You Have
Shareholders or Not*

by

Thomas B. Wilson

President

**Wilson
Group**TM

www.WilsonGroup.com

twilson@Wilsongroup.com

Overview of the Session

- I. Overview of the SEC Regulations on Say-on-Pay and the Implications**
- II. Why Should You Be Concerned About This**
- III. Assessment Issues and Strategies for Dealing With Them**
- IV. Questions and Discussion**

I. Overview of the SEC Regulations

On January 25th, 2011, the SEC adopted its final rules on executive compensation and shareholder advisory votes.

1. Companies need to put a non-binding advisory vote to shareholders on whether they **APPROVE** or **DISAPPROVE** of the company's executive compensation program.*
2. Companies need to put a non-binding advisory vote to shareholders on the frequency of which shareholders will have another vote on executive compensation:
 - **Annually**
 - **Bi-Annually (every 2 years)**
 - **Tri-Annually (every 3 years)**
3. Companies that are undergoing an acquisition will need to put a non-binding advisory vote to approve certain "golden parachute" compensation arrangements in merger or transaction related proxy statements.

* Companies with a public float below \$75M or \$50M revenues need to do this by Jan. 21, 2013.

I. Overview of the SEC Regulations

A Thought Regarding the New SEC Regulations:

*Sometimes I lie awake at night, and I ask,
“Where have I gone wrong?”*

*Then a voice says to me,
“This is going to take more than one night.”*

-- Charlie Brown, *Peanuts*
(by Charles Shultz)

I. Overview of the SEC Regulations

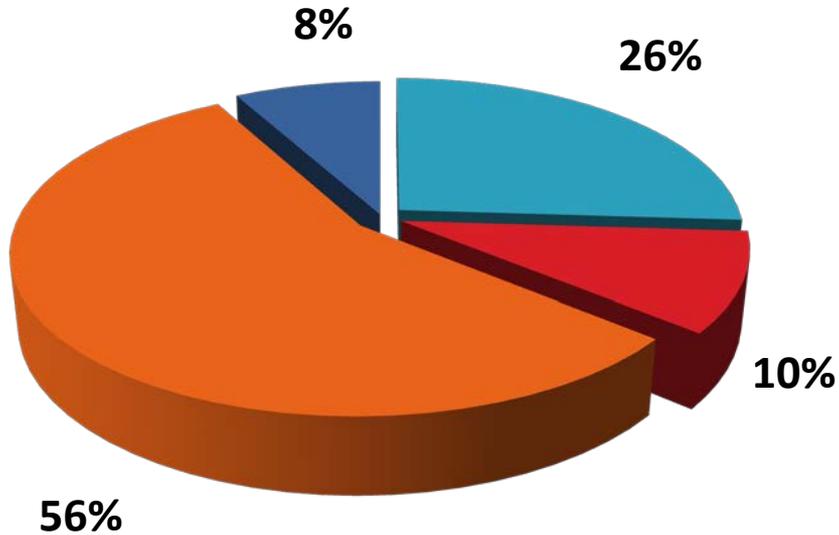
What Is Your Company's Ownership?

- A. US Publicly traded company
- B. US Privately owned company (by owners, LLC, S-Corp, private equity or other US company)
- C. Foreign owned company (no US stock traded)
- D. Private Not-for-Profit
- E. Other

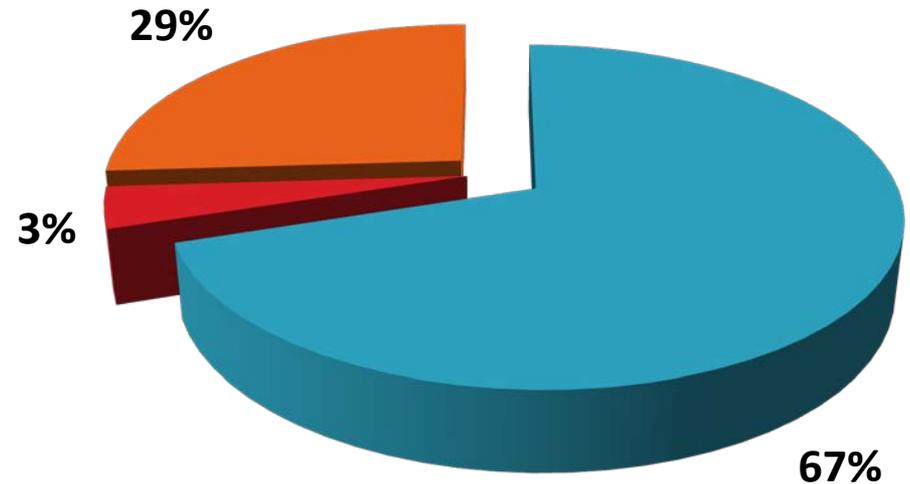
I. Overview of the SEC Regulations

As of February 1st, the votes on "Say-on-When":

What Management Proposed:



What Shareholders Voted:



-  Tri-Annual
-  Bi-Annual
-  Annual
-  No Recommendation

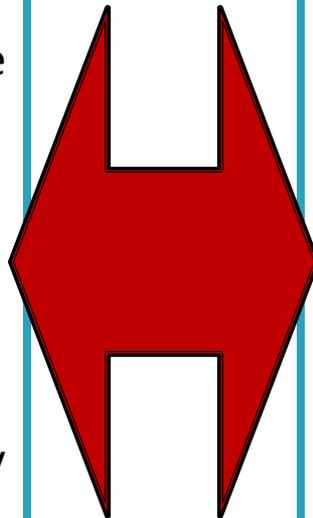
Source:
SchulteRoth&Zabel
Feb. 25, 2011
92 US Companies

I. Overview of the SEC Regulations

What is the argument for alternative “Say-on-When”?

1 Year Cycle:

1. Gives shareholders more influence on company’s executive compensation practices.
2. Keeps the pressure on Boards to be accountable for executive pay decisions.
3. Encourages shareholders to really understand the company’s executive pay philosophy and practices.



3 Year Cycle:

1. More consistent with most LTI plan cycles.
2. If changes are made, it may take 3 years to see any impact.
3. Reduces the pressures on Board to explain why decisions were made in an environment of “public bashing” of executive pay.

II. Why Should You Be Concerned About This

How concerned are you about this issue?

- A. I'm not concerned at all, at least for now.
- B. We're a private company and we don't need to comply. So, I'm not concerned about this. Should I?
- C. I'm concerned because we have some issues that need to be addressed.
- D. I'm worried because we have issues between our management and the Board, shareholders, employees, or others.
- E. Other

II. Why Should You Be Concerned About This

Why Companies (regardless of public or private) are concerned:

1. A new standard of transparency is emerging for executive compensation. People will likely take the vote seriously and executives/Boards will discuss the messages it sends.
2. Employees (current and prospective) and customers are deciding whether there is faith and confidence in the leadership of the organization based on how the media portrays their company's executive compensation.
3. Board's are feeling more accountable and liable for decisions regarding executive compensation and the use of the company's money.

II. Why Should You Be Concerned About This

Why Companies (regardless of public or private) are concerned:

4. Without a clear and compelling philosophy, the boilerplate to “attract, retain and motivate sounds hollow, particularly when the practice is compared to the philosophy.
5. The “hard” discussions are starting to happen, particularly in large firms with complex programs and organizations or companies undergoing strategic transformations.

II. Why Should You Be Concerned About This

Case Study Illustrations:

Costco Wholesale Corp.

It recommended that shareholders support a triennial (every 3 years) say-on-pay vote filed on their December 13, 2010 Proxy statement. The majority of shares (52.6%) were voted in favor of an annual vote. In announcing the results (Form 8-K) the company said

“...the Board of Directors of the company determined that it will include annually in the proxy materials a shareholder vote on the compensation of executives until the next required shareholder vote on the frequency of shareholder votes on the compensation of executives.”

II. Why Should You Be Concerned About This

Case Study Illustrations:

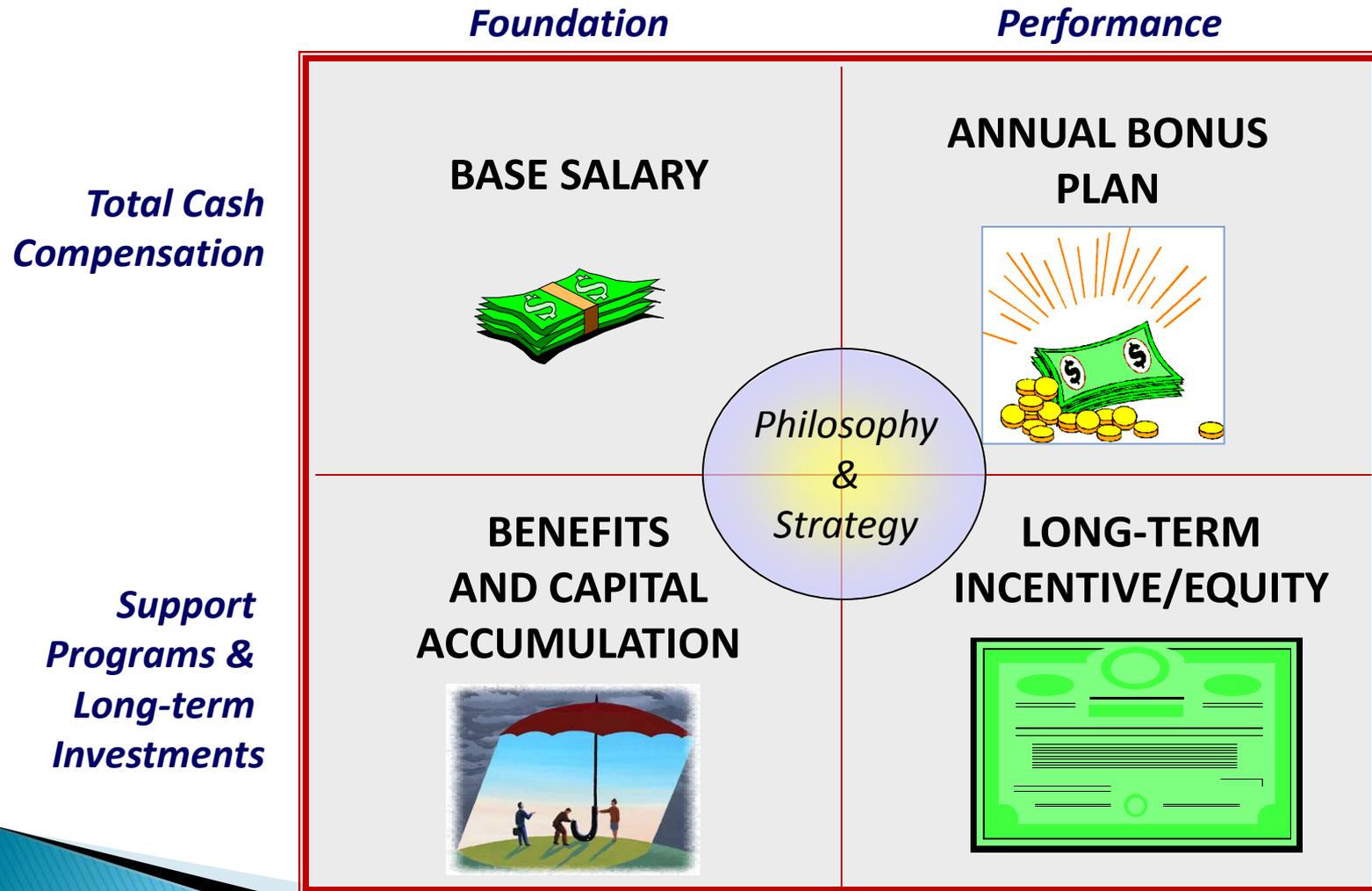
Ashland Inc.

It recommended that shareholders support a triennial (every 3 years) say-on-pay vote filed on their December 3, 2010 Proxy statement. However, the majority of shares (67.8%) were voted in favor of an annual vote. In announcing the results (Form 8-K) the company said

“...the Board of Directors determined to follow the shareholders’ recommendation and implement an annual advisory vote by the shareholders on the compensation of the named executive officers.”

III. Assessment Issues and Strategies for Dealing With Them

The Overall Framework of Total Compensation/Rewards:



III. Assessment Issues and Strategies for Dealing With Them

How Effective and Aligned Are Your Total Compensation Plans?

Base Salary:

- Does it reflect the level of responsibility and competency required to do the job?
- Is it sufficiently competitive to attract and retain the desired talent?
- Does it provide a sense of career opportunities and mastery of one's skills?
- Is it perceived as fair by the job holder and others?

III. Assessment Issues and Strategies for Dealing With Them

How Effective and Aligned Are Your Total Compensation Plans?

Annual Bonus/Variable Pay Program:

- Is it truly based on performance? How is performance measured?
- What determines the payout? How is it weighted based on Corporate, Business Unit and Individual performance?
- Does it provide a meaningful payout to the individual and a solid “return on investment” for the company?
- Does it provide the right “mix” level between salary and bonus?
- Is it viewed as an entitlement or an achievement plan?

III. Assessment Issues and Strategies for Dealing With Them

How Effective and Aligned Are Your Total Compensation Plans?

Long-term Incentive/Equity Participation Plan:

- Does it foster long-term, value creating thinking and responsibilities?
- Are the right level of people included in the plan?
- Is it well understood? Do people know how their efforts will be rewarded?
- Does it provide the opportunity that is meaningful to the individual?
- How much of it is weighted based on performance versus service (time)?
- How would a major payout be viewed by the shareholders, employees, customers, and the community?

III. Assessment Issues and Strategies for Dealing With Them

How Effective and Aligned Are Your Total Compensation Plans?

Benefits/Perquisites/Deferred and Other Compensation:

- Do they provide the desired level of income protection?
- Do they provide meaningful cost savings?
- Are people taking advantage of the programs/services available?
- How would a major payout be viewed by the shareholders, employees, customers, and the community?
- Are there programs or provisions that are regarded as unjustified by the market, shareholders, employees?

III. Assessment Issues and Strategies for Dealing With Them

How Effective and Aligned Are Your Total Compensation Plans?

The bottom line question:

To what extent do your compensation plans align with the total compensation philosophy and does this philosophy align with your people and business strategies?



III. Assessment Issues and Strategies for Dealing With Them

How Are You Doing? - Time to Vote

- A. Good – High in all areas.
- B. Somewhat – High in some and weak in others.
- C. Low – We have disconnect in many areas.
- D. Other

III. Assessment Issues and Strategies for Dealing With Them

How Are You Doing?

A. Good – High in all areas.

Congratulations – Find out why this is working so well and how this gives you a competitive advantage. Keep improving because others are!

B. Somewhat – High in some and weak in others.

Focus on what needs to change – Where, why and what risks are associated with the status quo. You know what needs to be done or get help from someone who can help.

C. Low – We have disconnect in many areas.

You have a lot of work to do –

- Shareholders may vote NO
- Key employees may be difficult to retain
- New talent may be hard to attract

Focus on where you can leverage the best change with the least amount of effort, and then tackle the next issue. Build on successes.

III. Assessment Issues and Strategies for Dealing With Them

Top Agenda Items for 2011 Board and Executive Compensation Review Meetings:

- 1. Revisit the executive compensation strategy and philosophy. And why not look at this for the entire company?**

- 2. Address unjustified practices:**
 - Tax gross up on certain executive pay arrangements
 - Claw backs of bonus paid for restated earnings
 - Lucrative severance, termination policies

- 3. Review the market references and current competitive position.**

- 4. Review LTI awards in a post-recession/recovery economic market.**
 - Increase the link between LTI awards (especially RSA or RSU awards) and performance.
 - Base performance measures on “relative” not “absolute” performance

III. Assessment Issues and Strategies for Dealing With Them

Top Agenda Items for 2011 Board and Executive Compensation Review Meetings:

5. Prepare an Executive Summary of executive pay for the Say-on-Pay decision.

6. **Assess compensation-rated risks**
 - Measures that are used
 - Pay-for-Performance ratio

7. **Evaluate the adequacy and independence of your compensation advisors.**

III. Assessment Issues and Strategies for Dealing With Them

Say on Pay

- How much do you communicate about the philosophy and practice?
- Is the Board concerned? Are shareholder's concerned?
- What does the vote tell you about the credibility of the Board and executive management?

Total Compensation Philosophy

- Why do you compensate executives and employees as you do?
- How do your programs provide you with a competitive advantage?
- How consistent, fair and meaningful are your programs to those who receive them?

Consistency in the Design and Management of the Programs

- Performance versus service (time) based
- Short term versus long term focused
- Internally versus externally driven
- Cash, equity or capital accumulation weighted

And Now Time for Open Questions and Discussion



THANK YOU!



Wilson
Group™



Thank You

