



Executive Compensation – Looking Beyond the Recession

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Today's Agenda

- ▶ The Current Environment
- ▶ Revisiting Your Compensation Philosophy and Policies
- ▶ Refining Your Compensation Program Components
- ▶ Equity Compensation – Responding to the Current Environment
- ▶ The Impact of Pending Corporate Governance Reforms
- ▶ Questions

Revisiting Your Compensation Philosophy and Policies

- ▶ Compensation program objectives
- ▶ Peer groups
- ▶ Pay positioning
- ▶ Pay mix
- ▶ Risk vs. reward

Compensation Program Objectives

Apple:

“...attract and retain a talented, entrepreneurial and creative team of executives ... while ensuring that the executive compensation program is aligned with the long-term interests of the Company’s shareholders.”

Oracle:

- *attract and retain highly talented and productive executives;*
- *provide incentives for superior performance; and*
- *align the interests of our executive officers with those of our stockholders.”*

Google:

- *Attract and retain the world’s best talent.*
- *Support our culture of innovation and performance.*
- *Align employee interests with long-term stockholder interests in the overall success of Google.”*

Perhaps Cisco says it best:

“Offer a total compensation program that is flexible in order to adapt to evolving regulatory requirements and changing economic and social conditions and takes into consideration the compensation practices of a group of peer companies identified based on an objective set of criteria.”

Pay Positioning Changes

Company Disclosure:

“...base salaries were generally positioned between the 25th and 50th percentile of the 2008 peer group...[and long-term equity incentives were] targeted at the 75th percentile.”

SEC Comment:

“Please indicate where the amounts of your actual named executive officers’ base salary and long-term equity compensation fell within the targeted percentile ranges. To the extent the compensation was outside of your targeted percentile range, please explain why.”

Company Disclosure:

“[Our Compensation Committee] took into account each executive’s seniority, position, functional role and level of responsibility in determining such officer’s base salary... [Annual equity award levels] are driven by our officers’ ability to impact our results that drive stockholder value, their organizational level, [and] their potential to take on roles of increasing responsibility.”

SEC Comment:

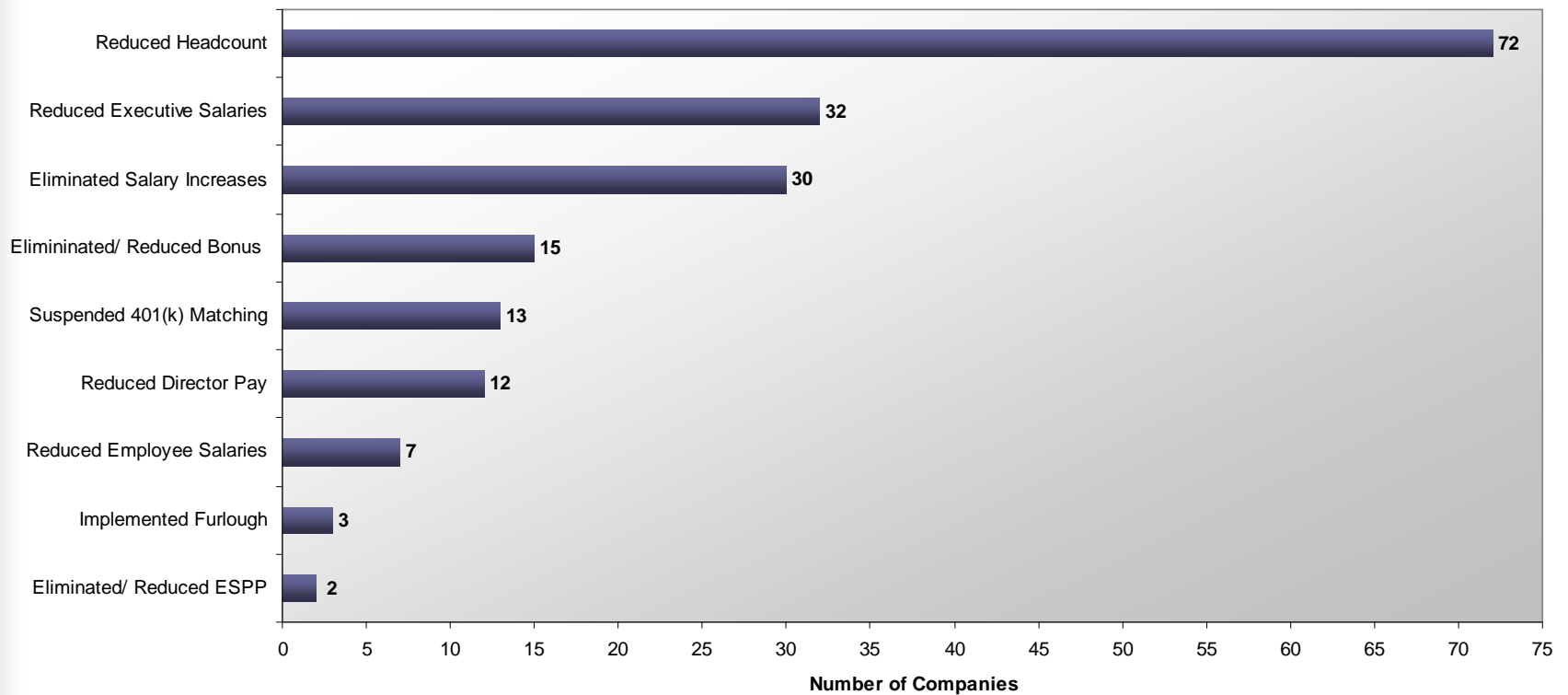
“Please analyze in more detail how the committee’s consideration of these individual performance, subjective and other mentioned factors resulted in the compensation awarded to your named executive officers.”

So, what is the SEC looking for?

- ▶ Where you target a specific market percentile or range, an explanation when actual pay deviates from that objective
- ▶ Where you have a more general positioning statement, either a specific discussion of how each different factor was applied or a statement that the factors were applied by the Compensation Committee on a subjective basis

Cost Reduction Tactics

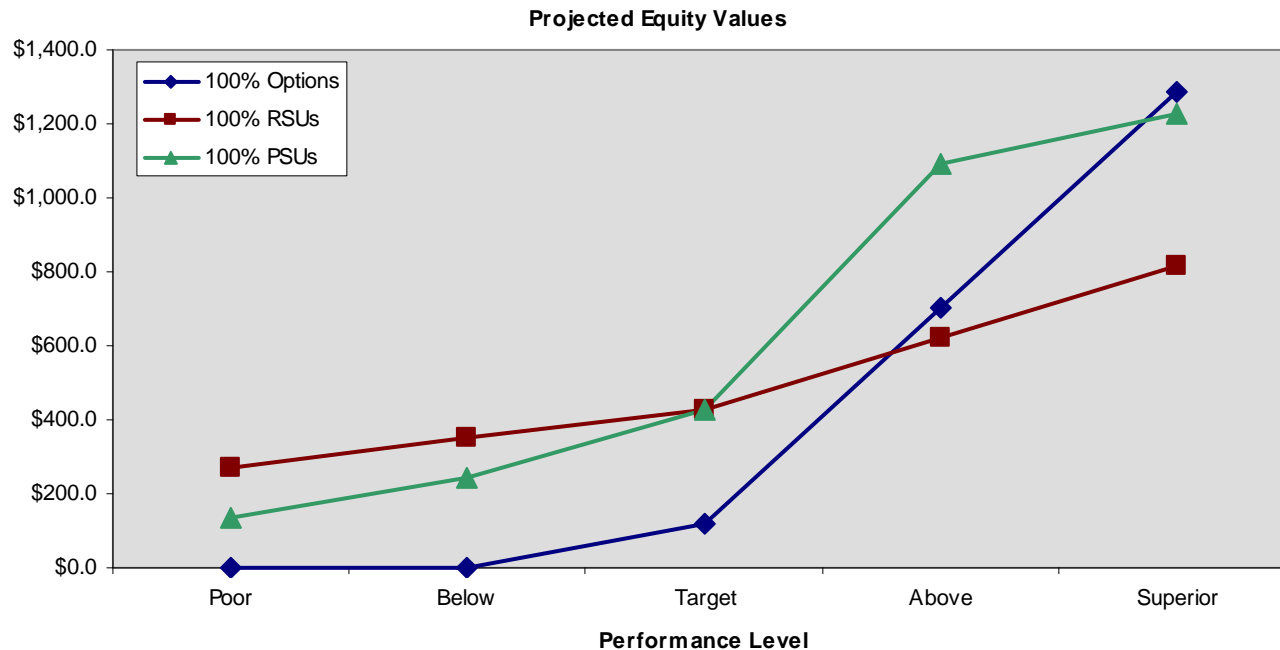
Reducing headcount has been the most prevalent action that technology companies have taken to reduce costs



How are/how should companies be thinking about long-term incentives?

Stock Price Performance Shares (gaining in popularity – for example, Intel)

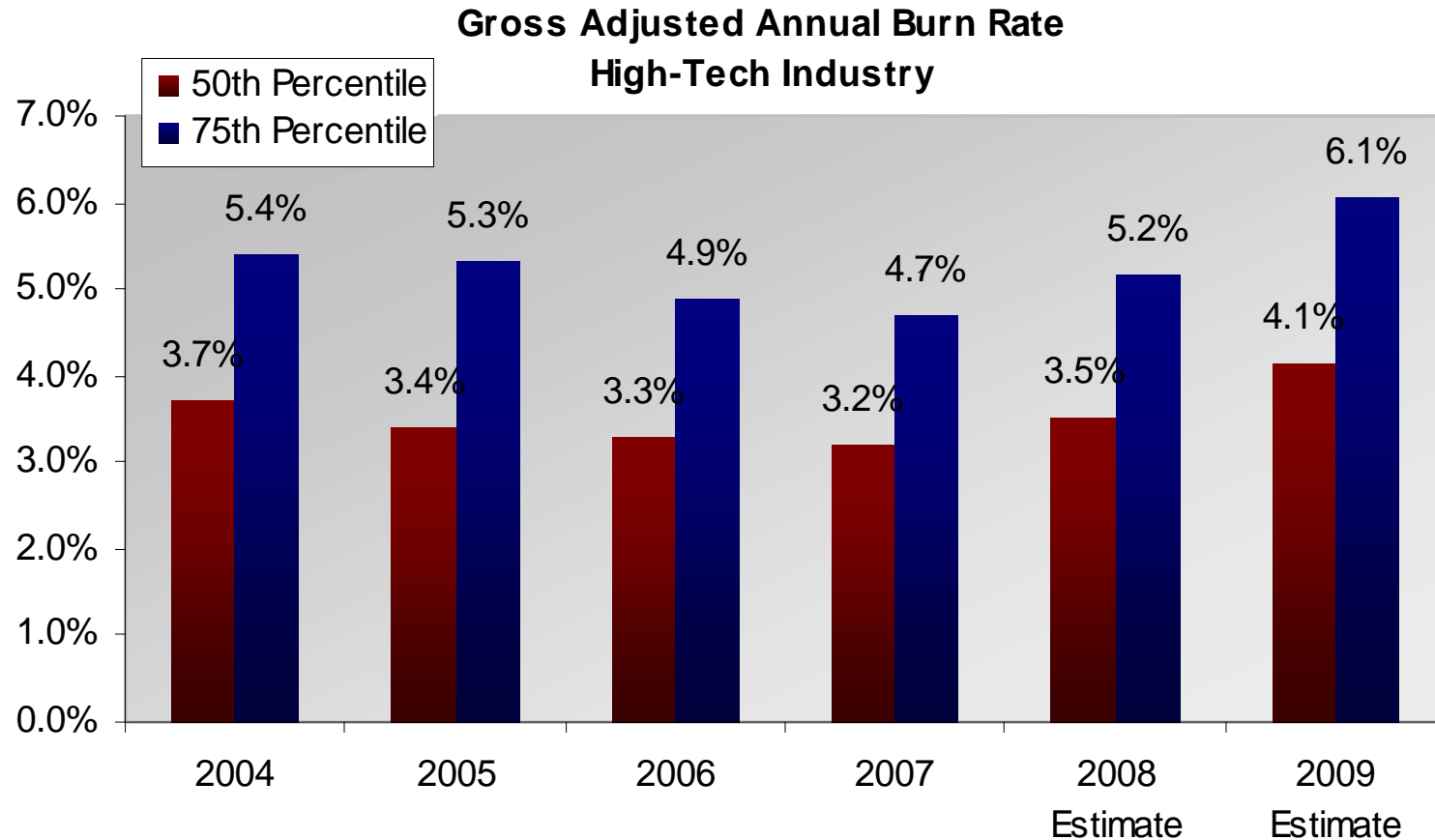
- ▶ A “target” award is established based on market comps/desired positioning
- ▶ Actual shares earned will vary with stock price performance (e.g., from 50% to 150% of target)
- ▶ Good combination of retention, motivation and pay for performance



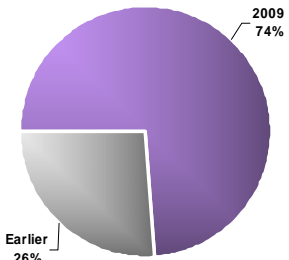
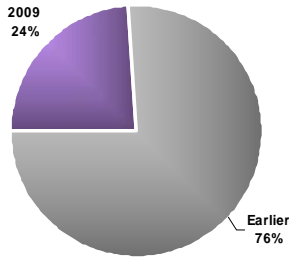
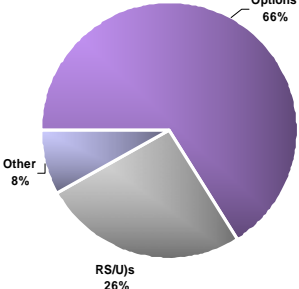
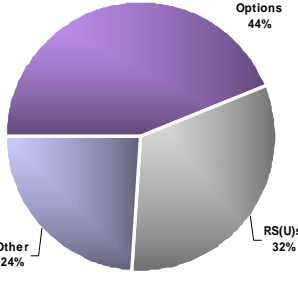
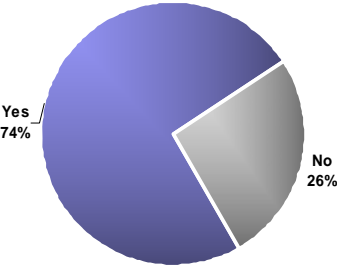
Career Stock (uncommon, but time to revisit)

- ▶ Substantial grant of RSUs that cliff vests after 5-7 years
- ▶ Promotes longer term perspective and alignment with shareholders
- ▶ Provides impactful retention value

Impact of Current Economic Environment on Equity Compensation



Option Exchanges: Market Summary

Timing of Grant	Shareholder-Approved	Non Shareholder-Approved																
Number of Exchanges	n = 108	n = 97																
Date of Exchange	<p>Year of Exchange</p>  <table border="1"> <caption>Shareholder-Approved Date of Exchange</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>74%</td> </tr> <tr> <td>Earlier</td> <td>26%</td> </tr> </tbody> </table>	Year	Percentage	2009	74%	Earlier	26%	<p>Year of Exchange</p>  <table border="1"> <caption>Non Shareholder-Approved Date of Exchange</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>24%</td> </tr> <tr> <td>Earlier</td> <td>76%</td> </tr> </tbody> </table>	Year	Percentage	2009	24%	Earlier	76%				
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