

The Compensation Committee Checklist – Nine in ‘09

In today's volatile environment, shareholders and activists are becoming increasingly demanding when it comes to responsibility being taken for poor corporate performance. For Compensation Committees, a concrete foundation with sound internal mechanics not only paves the way to solid results, but can also be highly effective in alleviating liability in times of heightened external pressure. Below are nine practicable measures that will serve as a helpful guide to keeping the Compensation Committee on track during 2009 and beyond.

- Review and Confirm Compensation Philosophy**
- Implement Efficient Reporting Systems**
- Preserve Access to Outside Advisors**
- Manage Risk Intelligently**
- Attend Regular Educational Programs**
- Maintain Continuous Review of CD&A**
- Plan for Succession**
- Confirm Appropriate Comparison Group**
- Develop Comprehensive Tally Sheets**

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Review and Confirm Compensation Philosophy

- As a top priority, the Compensation Philosophy should address the values and goals of the corporation as well as appropriate pay positioning and opportunities, internal equity, remuneration mix, performance criteria, equity participation, perquisites, benefits, and employment contracts. As a result of the changing economic and political landscape, Compensation Committees should take a detailed look at existing and potentially outdated pay programs and provisions. A noteworthy benefit of this examination will be the determination of whether current equity award practices are still effective in light of widespread stock-price decline. Not only does a comprehensive philosophy serve as a guide to help companies remain on track to achieving their goals, but it can also help to attract, develop, and retain key employees while placing limits on general criticism of pay practices.

Implement Efficient Reporting Systems

- Efficient reporting systems should be in place to ensure Directors' timely receipt of relevant information. To compliment an effective reporting system, the Compensation Committee should adopt a full-year calendar outlining specific agenda items, meet in executive session at every meeting, and completely document meeting minutes. Periodically, Committee members should be provided with up-to-date financial and strategic performance versus established criteria. This will allow the Committee to continually monitor company performance and be prepared to take action as needed. Pertinent materials should be distributed to Committee Chair and outside advisors for review and comment at least two weeks prior to mailing to Committee members, and Committee members should receive materials at least one week prior to meeting. Further, there should be an opportunity for Committee members to pose questions of management prior to the meeting.

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Preserve Access to Outside Advisors

- The Compensation Committee should maintain direct and open access to outside consultants and legal counsel to be utilized as deemed necessary, and the Committee Chair should be in regular contact with any outside advisors. In addition, management reports and recommendations should be available for review by the advisors, and they should have access to management to discuss any prospective changes to compensation programs. This will enable the Committee to harness valuable expert advice and external perspectives in a timely and effective manner.



Manage Risk Intelligently

- Increased awareness and scrutiny should be placed on excessive risks that management may be willing to take in order to achieve above target performance versus measures which affect incentive compensation. It is important to note that the responsibility of risk management no longer lies solely with the Audit Committee. The Compensation Committee should work actively to understand potential risks and unintended consequences of pay practices and so ensure that programs are in place to address and mitigate those risks. Particular attention should be given to short-term goals that may adversely affect long-term value creation/preservation.



Attend Regular Educational Programs

- Mandatory and regular training courses permit Directors to be up-to-date on current and emerging compensation issues. In addition, at least one Committee member should be a “compensation expert” with a significant knowledge of compensation practices, and the full Committee should attend periodic outside advisor presentations designed to explain current trends and updates regarding accounting, tax, and legal implications of compensation programs.

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Maintain Continuous Review of CD&A

- The Compensation Discussion and Analysis should be under constant review to ensure an accurate description of actual compensation practices. This may require multiple drafts and designated meeting times for open dialogue and debate among Compensation Committee members, the full Board, and senior management. Further, the Committee may consider reviewing sample/proposed CD&A language prior to approval of compensation decisions. With the potential for Say on Pay legislation being passed in the near future, management and the Compensation Committee should view the CD&A as an opportunity to describe pay programs/decisions and as a marketing document to convince shareholders of the importance of the programs. Additionally, disclosure should be considered with expectations for future regulatory requirements.

Plan for Succession

- Succession planning involves a focus on training and retention of human capital. The plan is supported by the identification of “high potential” employees and the development of a competitive compensation program that focuses on recognizing and retaining those individuals. Moreover, succession planning should be an agenda item at a regularly scheduled 2009 Committee meeting. Senior management should play an active role in planning discussions by recommending potential candidates to be further reviewed by the Compensation Committee. In addition to development from within, the Compensation Committee should take a proactive approach to the recruitment of new executives. 2009 may be a good time to attract highly talented new hires (and retain existing managers) as there could be an opportunity to increase sign-on and retention leverage by granting more shares at deflated stock prices. An effective succession plan ensures a seamless transition in the event of expected or unexpected departures of key personnel.

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Confirm Appropriate Comparison Group

- A suitable comparison group for benchmarking compensation levels and practices should be based not only on an analysis of business description and financial metrics, but consideration should also be given to companies which compete for similar talent. In situations where a Company does not have an adequate group of viable peers based on business mix or relevant financial metrics, consider the development of a “best practices” group which can be used to evaluate short and long-term incentive plan designs and pay mix, rather than actual pay levels. Once the appropriate group or groups are established, they should be reviewed regularly to ensure continued relevance. When using published survey data to make compensation decisions which affect future periods, the Compensation Committee should exercise caution; due to the highly volatile markets and economic downturn that affected most of 2008, data reported in 2009 surveys may not paint a realistic or meaningful picture of the future marketplace as a result of potentially inflated long-term equity award values.

Develop Comprehensive Tally Sheets

- A good tally sheet incorporates not only total compensation levels, but also amounts that are related to outstanding long-term incentive awards. This provides the Compensation Committee with a complete view of how much each executive is paid and which vehicles are being used to deliver value. Contingent and/or special compensation arrangements should be reviewed periodically to facilitate adequate understanding of potential costs that may arise under various termination situations. This involves recognizing the different treatment of executives in the event of death, disability or retirement, change-in-control scenarios, insolvency, and bankruptcy. Tally sheets provide a detailed view that is beneficial when evaluating employment agreements and the overall benefits that may eventually be received by key employees.