



# Executive Rewards

## 2009 Research Series



## Compensation of Named Executive Officers

Report 1 of 9: Reward Level by Distribution

Price: \$0 USD

### The Series

Reward Level  
Reward Mix  
Reward Messages  
By Distribution, Size, and Industry

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These channels have been organized into groups of services to better support our clients. The following service channels allow us to most effectively interact with our client/user groups:

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# About This Series

## Rewards Level, Mix, and Messages that Make Good Business Sense

The Grahall Research Institute has developed this Executive Research Series to help our clients and colleagues view executive rewards practices from new perspectives that includes the relationship between the level, mix, and messages of rewards strategy.

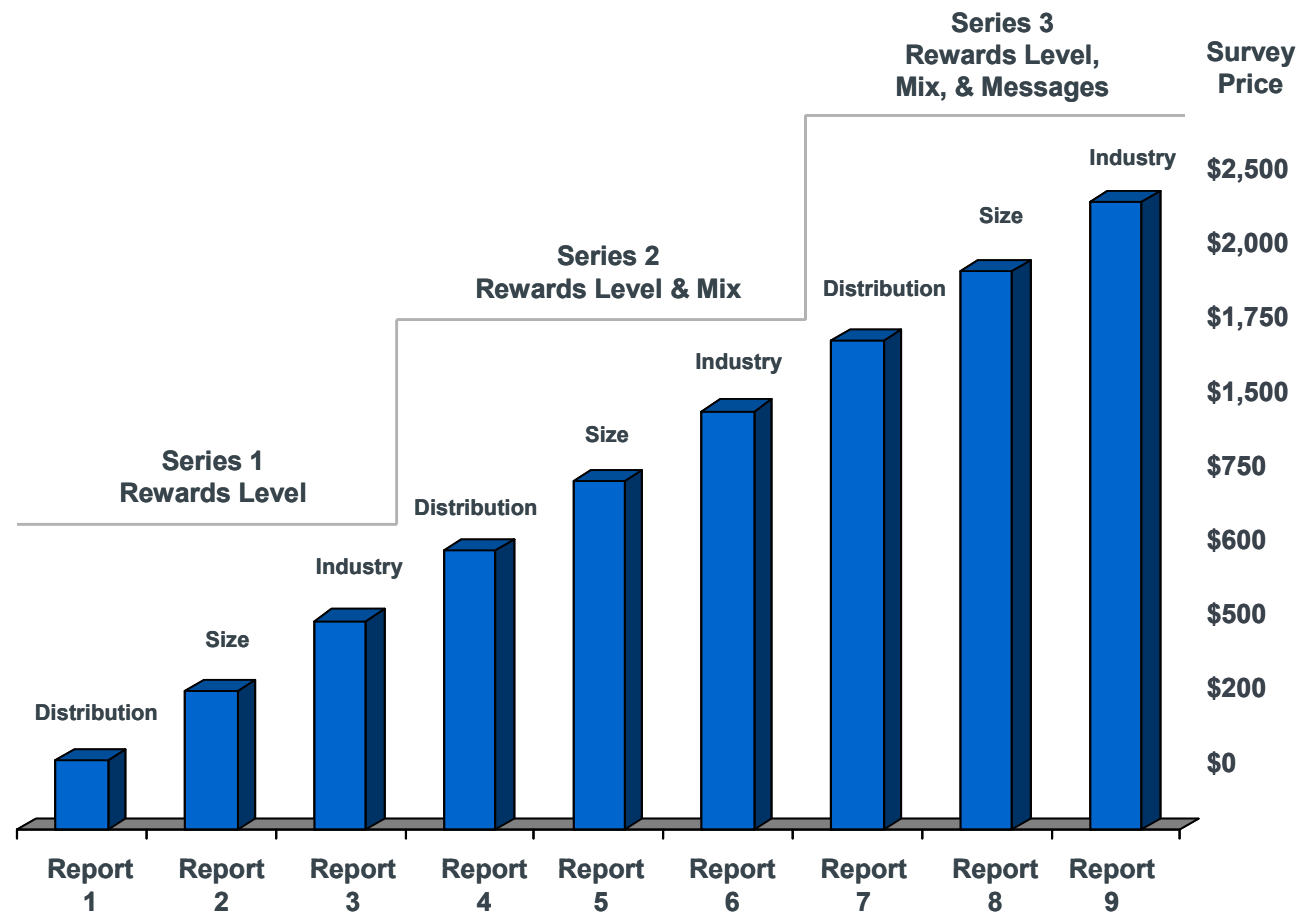
In this series we seek to move beyond a competitive analysis framework – setting Executive pay based on company size and industry category only is an insufficient rationale in today’s complex environment. We believe executive compensation should be considered within a strategic framework that includes many more factors such as environment, stakeholders, business strategy, and people strategy. Not only does this more expansive approach provide a defensible rationale for executive pay, but it sends the right messages to shareholders and executives as well.

The reports within this series build on each other.

The three major strategic axes are rewards level (money), the distribution of the various components (mix), and the “how” or (messages). Only when the total picture of money, mix, and messages are viewed does one truly see executive compensation in three dimensions.

In addition to this main story of money, mix, and messages there are many “sub-plots” based on the size of an organization and even the industry.

These core reports are an attempt to “touch the elephant” in enough places for professionals and consultants to more fully understand the shape of the issues around executive pay and not be dragged into the discussion by only using those instances that are “one off’s” that are atypically egregious and not reflective of common practice.



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## Purchase the Complete Series

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# Executive Rewards Study

SCOPE &  
METHODOLOGY

KEY FINDINGS

THE GRAHALL  
PERSPECTIVE

REWARD LEVEL

REWARD LEVEL  
BY SIZE

REWARD LEVEL  
BY INDUSTRY

REWARD MIX

REWARD MIX  
BY SIZE

REWARD MIX  
BY INDUSTRY

## I. Scope & Methodology

# Scope & Methodology

## Data Provided by Equilar, Inc.

Data for this report was obtained in part from Equilar, Inc., a leading independent provider of executive and board compensation analysis. Equilar is the market leader for benchmarking named executive officer and board pay. Equilar's online solutions help clients make informed decisions on board-level compensation matters and were voted Top 10 Product of the Year by *Human Resource Executive*. Equilar's research has been featured in leading media publications including *Fortune*, *The New York Times* and *The Wall Street Journal*.

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The purpose of Reports 1 through 6 in this series is to examine the level and mix of executive pay for public companies on Main Street not Wall Street. Because we wanted to report on the market as a whole and avoid targeting only the largest and most notable companies (and thus feeding the media frenzy that follows them), we followed a methodology that would allow us to accurately reflect the true state of executive pay for publicly-traded firms in the U.S. economy.

**Study Demographics by Distribution.** Compensation information was collected on a managed sample that accurately reflects a majority of publicly-traded companies in the United States. The result of our selection process is a group of 1,020 companies with median revenue of \$1 billion. The average is much higher, at \$5.8 billion, due to several very large outliers.

Our process for selecting these 1,020 companies was motivated by a desire to best represent the total population of companies in America when considering by size and industry distribution. We started with a population of over 5,000 publicly traded companies and narrowed our sample to a more manageable number by excluding companies with revenue, assets and/or market cap of less than \$10 million.

We also excluded companies with incomplete data, insufficient history as a public company, bankruptcies, and companies with unusually high executive turnover or an interim CEO. Finally, we chose only companies where the CEO is also the highest paid executive, measured by Total Direct Compensation, as we feel these organizations are the best representatives of “typical” pay practices.

The following pages provide additional details regarding the studied positions, architecture, and components of rewards included in this study as well as detailed demographic characteristics of the managed sample.

# Scope & Methodology

**Studied Positions.** This study covers the compensation of the top five Named Executive Officers as reported in the 2008 proxy filings of the sampled companies.

The positions covered include:

- 
- **Chief Executive Officer**
  - **2nd Named Executive Officer**
  - **3rd Named Executive Officer**
  - **4th Named Executive Officer**
  - **5th Named Executive Officer**
- 

When calculating the average and total of NEO pay, we left out the CEO in order to prevent the data from being skewed by his or her compensation package. As such, our averages and totals in this report covers the remaining NEO positions.

**Total Rewards Strategy Architecture.** The Architecture provides a framework for the rewards system and its individual components which should align with an organization's Business and People Strategies. The Total Rewards Strategy Architecture sets the key aspects of the strategy. More specifically, the:

- 
- **Money** (amount or level of rewards),
  - **Mix** (the composition of various elements within the given level), and
  - **Messages** (the communication of desired behavior through rewards programs).
- 

The development of a Total Rewards Strategy ensures that reward elements reinforce the behaviors the organization values which is more meaningful than merely having competitive pay practices. This study sheds light on current practices of these three key strategic elements.

**Studied Components.** The rewards components studied in this research report include the elements that comprise Salary, Annual Incentive, Total Annual Compensation, Long-Term Incentives, and Total Direct Compensation, as more fully described below:

- 
- **Base Salary**
  - **Annual Incentive**
  - **Total Annual Compensation** (base salary plus annual incentive).
  - **Long-term Incentives**
  - **Total Direct Compensation** (base salary, and annual and long-term incentives).
- 

Benefits or Perquisites are not included as part of this core series.

# Scope & Methodology

**Study Demographics by Size.** Other demographic characteristics of our sample are generally consistent with the broader population of companies. One notable takeaway is the reality regarding the size of public companies versus the perception, which is often dominated by very large organizations. In fact, there are many public companies with less than \$1 billion in sales.

By Percentile	Revenue	Market Cap	Assets	Return on Equity	Return on Assets	1 Year Total Shareholder Return	3 Year Total Shareholder Return	5 Year Total Shareholder Return
90 <sup>th</sup> Percentile	\$13,485	\$9,891	\$17,545	27.0	12.1	15.5	10.2	16.4
80 <sup>th</sup> Percentile	4,954	3,019	6,876	18.8	8.4	(0.8)	3.6	10.3
70 <sup>th</sup> Percentile	2,682	1,847	3,795	14.2	6.5	(8.6)	(1.0)	5.9
60 <sup>th</sup> Percentile	1,616	1,168	2,316	11.6	5.1	(16.8)	(5.2)	2.1
50 <sup>th</sup> Percentile	1,041	772	1,450	8.8	3.3	(24.4)	(9.7)	(1.2)
40 <sup>th</sup> Percentile	640	463	857	6.0	1.6	(33.6)	(14.3)	(4.7)
30 <sup>th</sup> Percentile	412	304	578	1.9	0.2	(41.1)	(18.9)	(8.6)
20 <sup>th</sup> Percentile	226	180	306	(8.9)	(3.6)	(50.6)	(26.8)	(14.7)
10 <sup>th</sup> Percentile	106	81	146	(51.4)	(19.2)	(63.7)	(36.0)	(22.7)

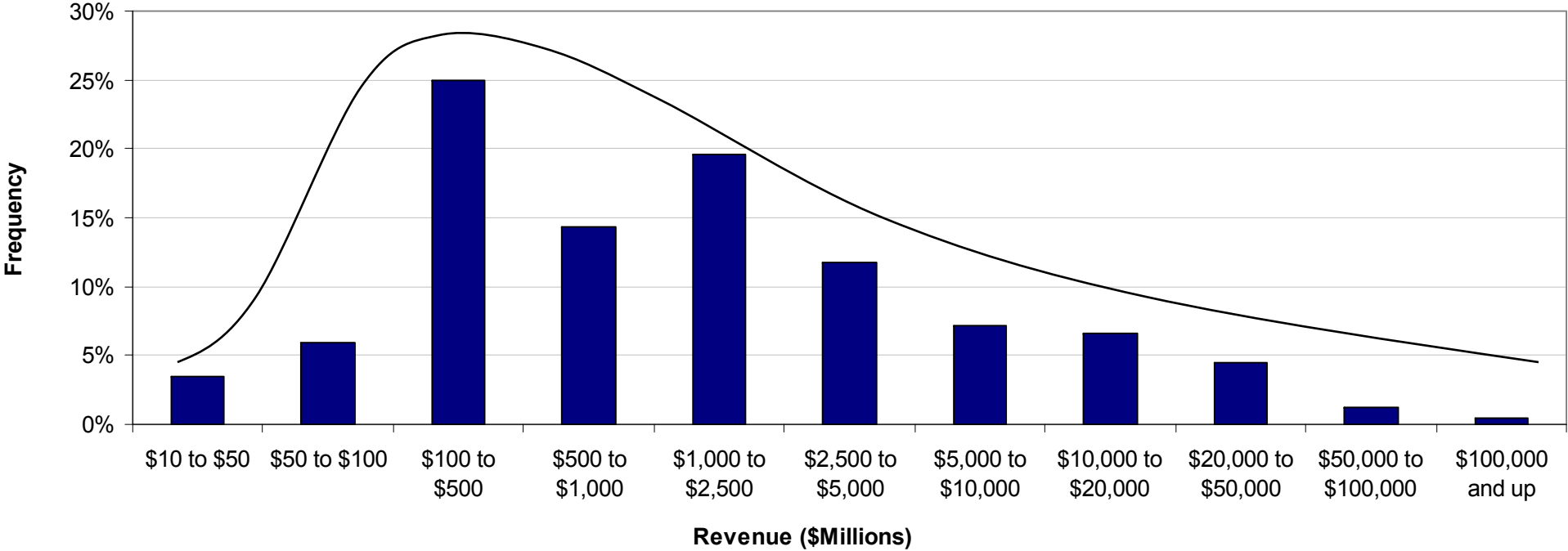
# Scope & Methodology

**Study Demographics by Industry.** Our analysis considers 23 industry groupings. We have a broad representation of each industry with at least 22 companies per category. Within each category, we also monitored representation by industry sub-category so as not to introduce a source of bias.

Industry Group	Number	Revenue By Percentile								
		10 <sup>th</sup>	20 <sup>th</sup>	30 <sup>th</sup>	40 <sup>th</sup>	50 <sup>th</sup>	60 <sup>th</sup>	70 <sup>th</sup>	80 <sup>th</sup>	90 <sup>th</sup>
Banks	48	\$50	\$79	\$130	\$165	\$209	\$313	\$454	\$617	\$963
Commercial Services & Supplies	51	176	304	645	811	1,080	1,293	1,724	2,222	3,685
Computer & Communications Equipment	46	64	123	194	300	566	891	1,462	3,170	4,922
Construction & Homebuilding	24	497	721	1,012	1,571	2,025	2,962	3,349	4,111	6,629
Consumer Products	56	147	283	417	459	1,234	1,784	2,769	4,426	6,788
Diversified Financials	31	186	248	372	676	922	1,038	3,289	6,213	16,828
Electronic Equipment & Instruments	29	94	217	403	580	640	1,073	1,948	2,360	5,865
Energy	69	89	303	484	626	1,009	1,683	2,954	6,750	19,467
Food & Beverage	32	248	427	539	1,206	1,685	3,036	5,074	12,758	26,357
Healthcare Equipment & Services	78	101	171	322	616	1,127	1,781	3,059	4,515	12,044
Hotels, Restaurants & Gaming	36	149	285	418	869	988	1,268	1,610	1,823	8,145
Insurance	36	175	294	406	561	1,235	2,008	3,575	9,917	20,516
Manufacturing	76	156	395	624	794	1,146	1,907	4,869	8,425	19,522
Materials	48	695	1,237	1,517	2,183	2,926	3,634	4,118	6,106	13,222
Media	29	310	406	736	764	1,198	2,694	5,209	7,070	14,627
Pharmaceuticals, Biotechnology & Life Sciences	64	33	51	88	138	273	978	1,604	4,220	19,815
Real Estate	25	214	287	417	521	729	897	996	1,499	2,914
Retailing	47	616	907	1,535	2,870	3,361	4,439	7,159	16,010	32,577
Semiconductors & Semiconductor Equipment	32	92	118	172	254	352	492	591	821	2,651
Software & Services	52	74	115	165	208	239	348	507	913	1,574
Telecommunications Services	22	150	212	353	401	491	534	1,364	1,886	2,562
Transportation	38	725	1,202	1,385	1,859	3,070	5,156	8,904	11,773	18,671
Utilities	51	627	1,080	1,602	2,209	3,345	4,071	7,221	11,203	14,440

# Scope & Methodology

**Study Demographics by Frequency.** The result of our managed sample can be viewed below as a bell curve which illustrates the distribution of small, medium, and large organizations in our study.



	Distribution of Companies in the Managed Sample										
	\$10 to \$50	\$50 to \$100	\$100 to \$500	\$500 to \$1,000	\$1,000 to \$2,500	\$2,500 to \$5,000	\$5,000 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$50,000	\$50,000 to \$100,000	\$100,000 and up
Number of Companies	35	60	255	146	200	120	73	67	46	13	5
Percent of Sample	3.4%	5.9%	25.0%	14.3%	19.6%	11.8%	7.2%	6.6%	4.5%	1.3%	0.5%

# Executive Rewards Study

SCOPE &  
METHODOLOGY

KEY FINDINGS

THE GRAHALL  
PERSPECTIVE

REWARD LEVEL

REWARD LEVEL  
BY SIZE

REWARD LEVEL  
BY INDUSTRY

REWARD MIX

REWARD MIX  
BY SIZE

REWARD MIX  
BY INDUSTRY

## II. Key Findings

# Key Findings

## Reward Level

We have always believed that facts trump perceptions. This is a report about the facts of executive compensation. We have built a sample of companies that represent publicly-listed organizations in the United States and our findings are consistent with reality if not perception.

We have found some things we expected (executive compensation overall is rational) and some surprises (variations on a year to year greater than we had expected). The following section is a high level review of the findings within the research study and some “editorialization.” The intent is to educate, provide value for the individuals working in the profession, and lastly some occasional entertainment. We have divided our findings into the sections of reward architecture which are reflected in this report - level of compensation, mix of compensation elements, and lastly key messages.

According to Grahall researchers, the level of executive pay in the United States is not as overblown as it is reported to be by the media. With the exception of cases of clear abuse, compensation levels at most companies are appropriate to the complexity of an organization’s operations, size, and industry.

When reviewing the total direct compensation of the entire executive population of close to 5,000 U.S. executives, our researchers got a very different impression than that which is presented in the newspapers which love the \$50, \$100, and even \$200 million dollar individuals, which as we can see is simply not representative of most U.S. companies.

The range in CEO Total Direct Compensation of our sample companies is extreme. To some degree this extreme range in compensation is similar to the different levels of company complexity that exists within the U.S. economy.

Executive Officer	Total Direct Compensation By Decile									
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>										
CEO	\$855,921	\$979,449	\$1,437,552	\$1,819,718	\$2,199,001	\$2,588,811	\$3,124,617	\$3,637,759	\$5,306,300	\$9,526,665
Average 2 – 5	353,611	422,096	564,902	772,489	770,043	974,038	1,060,946	1,325,260	1,852,863	3,097,533
<b>By Market Cap</b>										
CEO	\$813,395	\$1,063,572	\$1,380,893	\$2,044,537	\$2,120,655	\$2,561,177	\$3,034,941	\$3,750,359	\$5,550,351	\$10,354,826
Average 2 – 5	353,716	461,232	603,866	736,065	809,175	1,133,502	1,115,371	1,301,405	1,852,664	3,228,121

# Key Findings

## Reward Level

### Base Salary

Executive base salaries reflect proper alignment with size and industry for the majority of U.S. companies.

Executive Officer	By Decile		
	1 <sup>st</sup>	5 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>			
CEO	\$360,923	\$647,001	\$1,251,204
Average 2 – 5	\$209,498	\$328,406	\$625,000
<b>By Market Cap</b>			
CEO	\$400,000	\$613,875	\$1,200,000
Average 2 – 5	\$233,307	\$315,988	\$611,140

Median base salary levels for CEOs in our study range from \$360,923 in the lowest decile to \$1,251,204 in the highest decile. Median salaries for the Average 2-5 range from \$209,498 to \$625,000. In terms of company size, it's just not that differentiating.

A CEO of a 10th percentile company can get a salary of \$359,044 and feel just right in the group of companies that make up the bottom 10 percentile crowd. The base salary that makes the 90th percentile CEO feels like he or she belongs and is well or “competitively” treated is \$1,186,884. While this is 3.3 times more, he or she has to manage a firm with revenues of 127 times the size. While this gives the impression that salaries are just not that important to the executives and the directors that set them, this is not the case in practice.

### Annual Incentive

The issue with annual incentives is the message they send to executives – not the amount.

Executive Officer	By Decile		
	1 <sup>st</sup>	5 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>			
CEO	\$101,750	\$425,650	\$1,700,000
Average 2 – 5	\$39,672	\$140,76	\$626,750
<b>By Market Cap</b>			
CEO	\$66,832	\$356,733	\$1,938,000
Average 2 – 5	\$36,701	\$157,387	\$704,954

For all of the commentary on short-term orientation of management teams as a result of all of the annual incentives, we just don't see it here. Annual incentives are generally closer to \$50,000 per executive than they are to \$1 million. Our suspicion is that there may be truth to the claim, but that truth is more correctly sought out in the halls of our largest organizations. Annual incentives in the vast majority of U.S. corporations are dramatically less than the amounts accorded to long-term incentives by executives and directors.

This isn't to say that there aren't problems with short-term incentive planning among publicly-traded firms in the U.S., it's just to say that it may not be the amount of compensation as much as the messages that are awarded or rewarded based on performance or other criteria.

### Total Annual Compensation

Total annual compensation not only reflects proper alignment with size and industry but shows variances caused by what we assume to be differences in individual and company performance.

Executive Officer	By Decile		
	1 <sup>st</sup>	5 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>			
CEO	\$474,353	\$1,113,165	\$3,041,764
Average 2 – 5	\$259,046	\$466,028	\$1,251,250
<b>By Market Cap</b>			
CEO	\$507,600	\$1,022,926	\$3,101,500
Average 2 – 5	\$291,346	\$478,463	\$1,327,549

The median total annual CEO compensation at the 5th decile company is \$1,113,165. This is for a company that might average around \$1 billion in annual revenue and a market capitalization of \$750 million of shareholders wealth. Interestingly enough, the CEO will earn just over twice the average of the four executives reporting to him or her. One could argue that when it comes to total annual compensation given all the pressure of being terminated (or retiring) which occurs to close to 20% of the top CEOs annually, it might be better to be a second tier executive.

As it always was and always probably will be – it is better to be the CEO of a larger organization in terms of the level of pay. Total annual compensation increases fairly logically with increased responsibility as measured above by revenue and market capitalization.

# Key Findings

## Reward Level

### Long-term Incentives

Although the spread of long-term incentive pay is extreme (nearly 38 times for CEOs and 22 times for other executives), the real story is the relative value of the award compared to total annual compensation. Long-term incentive can double or triple total pay. On the flip side, they can also reduce it by half.

Executive Officer	By Decile		
	1 <sup>st</sup>	5 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>			
CEO	\$170,757	\$841,187	\$6,096,472
Average 2 – 5	\$68,675	\$245,833	\$1,517,263
<b>By Market Cap</b>			
CEO	\$141,125	\$887,621	\$6,892,681
Average 2 – 5	\$61,408	\$245,583	\$1,776,193

Individuals have written books on long-term incentives (including us) and many have documented the extreme awards to individual executives. The world of long-term incentives needs review, but not for the amounts generally provided for by the vast majority of executives in the United States. We don't think that we are being defensive here. Long-term incentives for the companies in our sample ranged from an average of \$80,000 in the lowest decile to \$2,500,000 for the top five executives managing organizations in the top decile of American Industry.

### Total Direct Compensation

Total direct compensation increases logically with the size and industry of the company yet shows variances in the amount of pay due to a variety of performance factors. CEOs may earn three times more than other executives as a result of their impact on the bottom line.

Executive Officer	By Decile		
	1 <sup>st</sup>	5 <sup>th</sup>	10 <sup>th</sup>
<b>By Revenue</b>			
CEO	\$855,921	\$2,199,001	\$9,526,665
Average 2 – 5	\$353,611	\$770,043	\$3,097,533
<b>By Market Cap</b>			
CEO	\$813,395	\$2,120,655	\$10,354,826
Average 2 – 5	353,716	\$3,112,705	\$3,228,121

We find that total direct compensation increases logically with the size of the company. It does become a smaller and smaller portion of the total revenues and market value of the firms for the top five individuals. While there is a ten times multiplier in total direct compensation between the median of 1st decile CEOs with total direct compensation of \$855,921, those companies average \$106 million in revenue versus those in the 10th decile where CEOs receive total direct compensation of \$9,526,665 but are asked to steward organizations with annual revenues of \$13 billion. We guess that size matters – but it's not a fixed proportion.

For example, the lowest CEO total direct compensation decile median is \$659,730 while the highest decile median is \$9,085,704, a 14 times multiple for the CEO position. That certainly seems like a lot until one calculates the corresponding range of company characteristics such as revenues 127 times between the top decile median and the lowest decile median.

# Key Findings

## Annual Changes in Reward Level

### Base Salary

Directors are sending messages to executives about company performance by adjusting their base salary on an annual basis.

Our most enjoyable finding and a surprise to those of us that have been in the profession for over a quarter of a century.

We found a year over year increase or decrease in base salary amounts in 2007 and 2008. According to our data, directors are, in fact, sending messages to executives about performance by adjusting their base salary on an annual basis.

For example, bottom decile CEOs did not receive an increase. On the other hand, top decile CEOs received an 18% increase, as illustrated below:

Percentile	CEO	Average 2-5
<b>90<sup>th</sup> Percentile</b>	18.3%	18.58%
<b>50<sup>th</sup> Percentile</b>	5.0%	5.38%
<b>10<sup>th</sup> Percentile</b>	0.0%	0.00%

Some of us have called base salary the forgotten compensation element. We stand corrected. We find this range refreshing and it confirms that there is differentiation in salary increases on a year to year basis.

### Total Annual Compensation

The year to year change in median decile total annual compensation in our study ranged from negative 44% to positive 53%.

If we were happy with the differentiation in annual salary increases, you can guess how excited we were to learn that the spread in median decile change year over year ranged from a negative 44% to a positive 53%.

This is over 90% from median 90<sup>th</sup> percentile to median 10<sup>th</sup> percentile. The 50<sup>th</sup> percentile change was for all intents and purposes flat at 1.6% for CEOs and 2.5% for the next four executives, as illustrated below:

Percentile	CEO	Average 2-5
<b>90<sup>th</sup> Percentile</b>	53.10%	38.85%
<b>50<sup>th</sup> Percentile</b>	1.60%	2.63%
<b>10<sup>th</sup> Percentile</b>	(44.10%)	(31.75%)

Those are some pretty tough Boards of Directors out there when it comes to total annual compensation changes!

### Total Direct Compensation

Our data showed an astounding 140% spread between the highest and lowest percentile CEO changes from 2007 to 2008!

If you listened to the pontiffs you might believe that pay for executives only goes up. According to our data, that isn't true.

There was an astounding 140% spread between the highest and lowest percentile CEO changes on a year over year basis. The remaining Named Executive Officers (NEOs) reveal similar dramatic variances, as illustrated in the table below:

Percentile	CEO	Average 2-5
<b>90<sup>th</sup> Percentile</b>	96.3%	68.98%
<b>50<sup>th</sup> Percentile</b>	0.50%	4.25%
<b>10<sup>th</sup> Percentile</b>	(50.10%)	(42.65%)

We only can hope that journalists who report on compensation abuses take note that while some CEOs and executives may be coddled by their Boards, our bet is that most of them (the executives) are just as likely to go down in pay as they are to go up. In addition, it's not just a few percentage points, but the downside on an annual basis can be as much as 50% as it was for 200 companies executives in our sample.

# Executive Rewards Study

SCOPE &  
METHODOLOGY

KEY FINDINGS

THE GRAHALL  
PERSPECTIVE

REWARD LEVEL

REWARD LEVEL  
BY SIZE

REWARD LEVEL  
BY INDUSTRY

REWARD MIX

REWARD MIX  
BY SIZE

REWARD MIX  
BY INDUSTRY

## III. The Grahall Perspective

# The Grahall Perspective

## The State of Executive Pay

You can't escape the controversy that surrounds executive pay. These days, it's impossible to pick up a newspaper, fan through a business magazine, or catch a TV news program without being subjected to excessive hand-wringing over how much the top executives at America's largest corporations are being paid. Much of what you read or see is hyperbole, exceptions to the norm being presented as the norm, guilt by inference, and maybe even a small amount of envy. And some of it is reality. We say this not as a mere onlooker but as a firm whose consultants average over 20 years practicing the art and science of executive compensation. The main author of this report series Michael Dennis Graham has been in the compensation and benefits field for over 35 years.

So what exactly is the problem? Simply put, most of America thinks that CEOs are overpaid. And it's not a case of sour grapes where the little guy who is barely scraping by is incensed by the millions being raked in by corporate titans. One poll in early 2006 pointed out that this belief crosses into far more segments of the American population than the reader might think. The problem with executive pay is multi-layered and complex, and goes well beyond the sound bites and sensationalism of the media picking apart proxy statements for the most egregious examples of pay programs that are out of whack. But as Americans, we've been raised on a steady diet of short news bites.

If what we believe about executive pay is based on what we read in the papers, then there is a lot more reading to be done. That's because the excesses get covered, well, excessively, one might say. There are a large number of instances where the poor performance of the organization has resulted in substantial reductions to the chief executive officers pay. Of course, there are always reductions to the extent that a portion of the officer's pay is in the form of equity-related compensation. If the underlying price of the equity value is reduced substantially, the executive officer's total compensation program is also substantially reduced. If we were to step away from the individual instances, both bad and good, that have been mentioned in the press and look at the aggregate picture, it is possible to see from 50,000 feet that executive pay has, in fact, correlated to and risen with the value of the U.S. stock market.

We believe that executive compensation is logical and market-driven. There is a free market for executives. There is also substantial turnover inside the executive ranks. Anywhere between 10 and 15 percent of the chief executives of the major corporations leave their positions each year. Over half of that number leave for reasons other than retirement. Nonetheless, we have a system that allows way too many egregious situations. Even worse, we have a system that is not effective, even if it doesn't result in eye-popping payouts. Too many times, results are based on serendipity at best because pay is so linked to stock or other equity-related reward vehicles. The fact is, things have gone wrong with the state of executive compensation, and there's plenty of blame to go around for how we got into this mess. Regardless, it is important to create a real basis for a fact based discussion. We believe this regardless of the way our legislatures work (or don't) which is to legislate the last ambulance story that catches the public's attention.

These core research reports encourage a review based on comprehensive insights drawn from comprehensive data.

# The Grahall Perspective

## An Interview With the Author Michael Dennis Graham – Consultant Grahall



As a standard feature to the Research Reports we interview the main author. Since these studies are an attempt to shed some light on the subject of executive total reward strategy we have asked the author of the studies to respond to 10 questions for the readers.

### **Question 1 How important is it to know what the other guys are doing?**

I admit that “They are doing it so I’m going to do it too” is a somewhat valid argument – when you are in kindergarten. It’s not so cute when the same argument is used by grown-ups discussing total executive rewards. If you take one concept away from this set of research reports let it be this: there is no such thing as “best practices.” The only best practices are those that work best for your company. If someone tells you that you need to target the 75<sup>th</sup> percentile because everyone else is, ignore them! Statements like “This is the way we did it in the past,” “This is the way they do it at Otherguy Industries,” and “This is the way they did it at my prior company” are also pretty silly and won’t get you anywhere close to where you need to be. Unless, of course you want to be average. Then, by all means, do what everyone else is doing.

### **Question 2 What are the real driving factors and How do we identify them?**

The issues that should play into your total executive reward strategy include 1) the business environment; 2) key stakeholders; 3) vision, mission, and values; 4) business strategy; 5) people strategy; 6) organizational capabilities; and 7) and organizational structure, processes, and culture. Get to know and understand them intimately before you design your program.

### **Question 3 Are rewards just about the amount of money?**

If you think total rewards is just about the money, you are wrong. A complete reward architecture takes mix and messages into the equation. Your organization’s specific goals will determine the best mix of short-term, mid-term, long-term and career incentives. Used correctly, top executives will receive the messages necessary for the organization to operate at its best.

# The Grahall Perspective

## An Interview With the Author Michael Dennis Graham – Consultant Grahall



### **Question 4 How important are the boundaries?**

When it comes to the business environment, think of an analogy like the playing field. You want to play on the whole field and not just between the hash marks. That being said, you don't want to play outside the lines, either. Figure out how big your field is and where the boundaries are, and work within them.

### **Question 5 How important are the stakeholders?**

Your key stakeholders are integral to the success of your business in the long term. Measure their influence and proactively incorporate their input. Involve the right stakeholders in the process and you have a much better chance of success.

### **Question 6 Does Vision factor into the dialogue?**

Do all companies have great vision, mission, and values statements? Not really. And, is it possible to design an effective total reward strategy without them? It's been done before. Is it better to mold the executive compensation program around the companies vision, mission, and values? Absolutely!

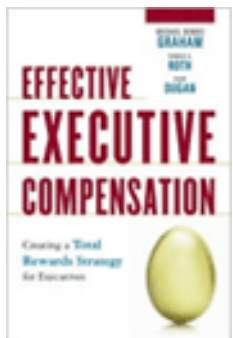
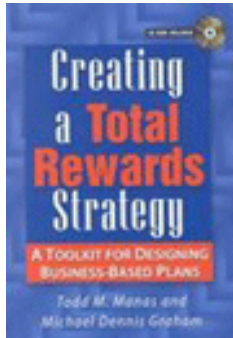
### **Question 7 How important is it to nail down your business strategy?**

Your organization's business strategy is the most important input on your reward strategy's overall design. So clarify and decode all of your organization's business strategies (general, value chain, or specific). That being said, determining the impact of business strategy on your organization as well as how it should be incorporated into the total executive reward strategy is absolutely imperative.

# The Grahall Perspective

## An Interview With the Author Michael Dennis Graham – Consultant Grahall

Other Publications by  
Michael Dennis Graham



### Question 8 Is an organizations people strategy important?

Both organizational capabilities and people strategy are threshold conditions when it comes to designing a total reward strategy. A compensation strategy with good traction always hits upon an organization's structure, process, and culture paradigms. Keep your eye on culture in particular, which can take on a life of its own.

### Question 9 What do you need to know?

It sounds obvious, but you must understand all aspects of your executive compensation plan. And by that we mean you need to be in the know when it comes to minimum and maximum payouts and consequences under all scenarios. Otherwise you are in for a big "Holy Cow" moment. Knowing what an executive stands to make at target just isn't good enough. In addition to knowing what they might make in one year, know what they will make over their executive careers, and what they are walking away from if they choose to leave.

### Question 10 How powerful is the concept of Total Executive Rewards.

Designed correctly, a good plan can be an organization's greatest ally—aligned not only with an organization's goals and strategies, but also with the interest of the shareholders. If there is a silver lining to the recent failures when it comes to executive compensation maybe it's this: with compensation in the spotlight investors and shareholders are demanding that executives no longer be excessively rewarded for poor performance. For the first time in years, this heightened focus has led many organizations to take a more detailed look at their pay practices, and the increasingly important role compensation plays in attracting, retaining, and motivating executives.

# The Grahall Perspective

## Grahall's View of the Future

Because a total executive reward strategy can make or break a company. If you have a well thought-out and implemented plan chances are your stock and company performance are high and executives and shareholders alike are happy. But if there are kinks in your plan you are going to feel the consequences.

At the very least your company won't meet its potential, and at the very worst you'll end up in the headlines—or jail. And judging from the number of CEO celebrities on the scene these days, it's apparent that not everyone has a good handle on reward strategy.

As conscientious consultants (yes, there is such a thing) we wanted to share what we had learned throughout our careers with the goal of giving the entertainment spotlight back to the people who want to be there—comedians and movie stars, for example. Here are our predictions regarding total executive rewards, organized by topic

**Business Environment.** Survival of the fittest is going to become the name of the game as the business environment becomes more competitive. The economy will be more robust in 2010 than in 2008 & 2009, legislators will continue to talk, regulatory bodies are going to be pretty busy interpreting the latest round of regulations, shareholders will be sharing more than their two cents worth, and companies will strive to produce more for less. Put all this together and what do you have? Organizations that aren't in top shape competitively can expect to be swallowed whole by the market. As a result, competition for the very best people—those who have track records of success—will be ruthless.

We also predict that politics will continue to be a “side show” in this area, as Congress gets ready to debate a proposal that will require proxy votes on executive compensation plans. The proposed “Protection Against Executive Compensation Abuse Act” focuses on increasing exposure, not limiting pay. With Barney Frank behind it, as well as strong investor support for transparency, we think it might be a matter of when, not if, expanded reporting is mandated.

Other new landmark regulatory changes include proxy disclosure rules. We generally favor greater disclosure. In particular the exposure of potential conflicts of interest among executive compensation consultants. No one will ever be sure how much damage these conflicts have done in the past but there really isn't any reason to tolerate them going forward. There are plenty of good consultants and there is no reason for hiring one with even the hint of a conflict. Shareholders should insist and receive no less.

Besides strict new limits on deferred compensation program, accounting experts are going to be working overtime while companies try to figure out how to present stock-based compensation costs in the income statement. Early reports show that many companies will continue to use the Black-Scholes model to estimate the fair value of employee stock options, though alternative models will be explored. As a matter of fact, you can expect to see some pretty creative option valuation techniques. Let's hope they aren't so creative that they turn into the executive malfeasance du jour.

# The Grahall Perspective

## Grahall's View of the Future

**Stakeholders.** Key stakeholders will continue to complain, push, pull, and remain more concerned about the golden goose than about executive compensation largesse. And that's exactly how it should be. In fact, the "self cleaning oven" aspect of the American economy will continue to work as it has in the past. Not perfect—in fact, messy—but in the end it will reward the best organizations and penalize the worst. And while it might take a little longer than you think it should, poor performing executives with high rewards levels will ultimately be replaced.

You can expect shareholder proposals on compensation and governance issues to surge in the upcoming years, with a focus on more specific compensation practices—the use of performance requirements in equity grants, for example—rather than generic efforts to restrict total pay. Extensive activity is expected on majority votes. While a relative few companies will adopt a form of majority vote, requiring that directors who receive a majority of "withhold" votes resign, this approach won't find widespread acceptance. And it shouldn't. We're in a war zone, folks, and democracy doesn't fly in a war zone. Shareholders, rather than just pursuing costly reforms along the lines of Sarbanes-Oxley or seeking outright limits on pay, have shifted their attention of getting access to the information needed to judge pay programs for themselves. Ultimately what they need to judge is whether the company is performing well enough to retain the stock. If not, they should sell the stock right into the cellar!

**Vision, Mission & Values, Business Strategy (Organizational Capabilities) and People Strategy.** Organizations will continue to gain an understanding of the power of the "line-up." Vision, Mission, and Values is the threshold that supports Business Strategy, which in turn requires Organizational Capabilities and People Strategy for implementation. Many organization have been good at developing winning business strategies. And yes, business strategy is certainly the meat, but when all is said and done are you going to enjoy your hamburger as much without the bun? All meat analogies aside, most organizations will understand that the execution of business strategy requires the acceptance of the Vision, Mission, and Values of the organization, and can only be implemented through the Organizational Capabilities and People Strategy.

So what about predictions when it comes to business strategy? All we have to say is this. Beware of executive compensation consultants that give you predictions on business strategy. It can't really be done with any success, so we won't do it.

**Base Salaries.** Base salaries will continue to be taken for granted. And you know what? Companies will get what they pay for. In other words, executives will continue to discount base salaries. And because of the continuing pressure from the layers within the organizations, salaries will continue to be pushed up against the \$1 million barrier.

**Annual Incentives.** These incentives will continue to serve as a compensation workhorse, with many organizations increasing award opportunities to make up for reduced option values. But, performance targets are likely to be set higher in light of improved results in 2009 over 2008, as well as greater awareness of the competitor marketplace. Crossing a long-time threshold, some companies will set target bonuses for chief executives that will exceed 200% of salary. Maximum bonus opportunities are also rising, with stretch awards of 300% of target bonus becoming more commonplace.

# The Grahall Perspective

## Grahall's View of the Future

**Mid-term Incentives.** FASB-mandatory expensing of stock options has already caused many major companies to make deep cuts in options use—and significantly boosts awards of full-value shares. The extent of change is highly dependent on the particular industry and financial circumstances of each company, and will be more fully revealed in 2009 proxy reports. For now, time-based vesting remains the standard for both option and share grants, but growing opposition to “pay for a pulse” is likely to prompt more companies to incorporate specific financial goals into grant terms.

Mid-term incentives will become the new workhorse for motivating the vast number of middle management in many large corporations. Some organizations will go so far as to remove top executives from their annual incentive pools. This, under the right circumstances, should be applauded.

**Long-term Incentives.** Prepare for substantial change in equity compensation structure. There are a few things we expect from organizations. First of all, we expect them to abandon traditional methods for determining equity compensation grant amounts. We also expect them to be persistent on executive ownership. We also expect that restricted stock will not be pay for performance. We'll probably see an increase in the use of stock SAR's, attached dividend rights, discount prices, indexed prices, performance vesting, and third-party transferability. On the other hand, we expect to see a decrease in cash SAR's, ISO's, premium price options, and reloads. We also predict that run rates will decrease, and executive grant values will continue to come down.

**Wealth Accumulation.** Intended to revert those oh-so-amusing “take the money and run” scenarios, executive equity retention and ownership requirements are becoming more common features of equity programs. In another bid to better align executive interest with shareholders, more companies are writing restrictive covenants into the terms of equity grants and employment contracts and are also turning to the courts—with mixed results, mind you—to recapture performance-based compensation based on discredited financial results.

Regulatory changes and governance concerns are spurring revisions—and some cuts—in executive benefit and perquisite programs. Highly leveraged stock options are being replaced with other wealth accumulation vehicles, while SERPs and other deferred comp programs—while they are certainly attractive long term—face some serious hurdles under IRS Section 409A. In addition to discouraging executives from deferring to company stock, the new rules might also delay delivery of SERP benefits and change-in-control payments to executives.

That being said, providing new executive wealth accumulation opportunities will be controversial, especially considering widespread cutbacks in employee defined benefit plans. Another problem? Older pension plans were structured at a time when compensation was a fraction of current levels. And guess what? They've grown exponentially. So how to deal with this criticism? Our guess is that new SERPs may include performance hurdles.

# The Grahall Perspective

## Grahall's View of the Future

**Executive Benefits.** Executive benefits should continue to be evaluated and reduced to “make whole” types of programs. The golden rule, “Do unto others as you would have others do unto you,” will give good guidance for executives and designers.

**Executive Perquisites.** In lieu of executive excesses that have made it onto the front pages, you can bet that both employers and investors are going to be keeping better tabs on who uses the company jet and why. When things do go awry, Boards are going to get pressure to recapture excess money and revoke privileges. The problem? Possession, as they say, is nine-tenths of the law, and proving fraud and culpability can be close to impossible. In the end perquisites will be business-based for most organizations, not status-based.

**Executive Development Rewards.** What's going to change here? Well, there will certainly be less tolerance when it comes to retaining executives who are surrounded by controversy. Organizations are beginning to realize—finally, we might add—that there's no such thing as an irreplaceable executive. And Boards are becoming more comfortable rejecting outlandish compensation demands from swollen-headed leaders, instead opting to hire less egotistical managers who are team players. Succession planning, as a result, is becoming a hot topic on the Boardroom agenda.

As much as we wish it could be different, we think the development of integrated, holistic executive reward strategies will remain elusive. Most organizations will continue to see the executive reward strategy as a single dimensional effort in determining an amount, while defaulting to the market averages for the mix of rewards. Even worse, companies will continue to adopt the crowd consensus, otherwise known by the oxymoronic name “best practices,” to determine the messages component of the executive reward architecture.

# Executive Rewards Study

SCOPE &  
METHODOLOGY

KEY FINDINGS

THE GRAHALL  
PERSPECTIVE

REWARD LEVEL

REWARD LEVEL  
BY SIZE

REWARD LEVEL  
BY INDUSTRY

REWARD MIX

REWARD MIX  
BY SIZE

REWARD MIX  
BY INDUSTRY

## IV. Reward Level

# Level of Rewards

## Rewards Summary

All Companies

The chart below illustrates the Median Total Direct Compensation for the Top 5 positions across all sampled companies. When calculating the average and total of NEO pay, we left out the CEO in order to prevent the data from being skewed by his or her role on the Board.

Across the entire sample, Median Total Direct Compensation was about \$2.3 million for Chief Executive Officers. The average for other Named Executive Officers was less than half of this amount, about \$924,000.

*Our analysis indicates that when a broad sample is taken and the median is used – which we feel better represents typical pay practices by appropriately weighting outliers – CEO compensation is much lower than some popular media presentations suggest. Average CEO Total Direct Compensation in our study is \$4.1 million.*

### Median Total Direct Compensation

Reward Components	Named Executive Officers						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
<b>Base Salary</b>	\$666,549	\$400,000	\$352,323	\$321,750	\$306,604	\$347,375	\$1,330,888
<b>Annual Incentive</b>	425,530	216,891	157,025	144,000	123,844	165,015	614,940
<b>Total Annual Compensation</b>	1,104,087	632,879	536,534	479,750	444,990	520,063	1,996,919
<b>Long-term Incentives</b>	1,067,218	446,885	326,943	277,918	217,192	315,839	1,174,294
<b>Total Direct Compensation</b>	\$2,343,531	\$1,200,000	\$967,026	\$812,728	\$713,053	\$923,642	\$3,456,276

# Level of Rewards

## Rewards Summary

All Companies

The chart below illustrates the Median Percent Change in compensation for the Top 5 positions across all sampled companies. Reported changes reflect the annual increase or decrease from amounts reported between the 2008 to 2009 proxy seasons.

According to our data, compensation for the Top 5 Named Executive Officers remained relatively level between amounts reported in 2008 and 2009. For all Named Executive Officer positions, base salaries were impacted by the approximate value of a cost of living increase (typically 4% to 5%). Total Annual Compensation and Total Direct Compensation rose only slightly from 0.5% to 3.3%.

Although the data on this summary table appears to be relatively flat, a breakdown of year-to-year changes in Base Salary, Total Annual Compensation, and Total Direct Compensation show a wide degree of variance in pay change, possibly due to the increasing role of company performance on executive pay. Many went up and many went down – the inner turmoil is not reflected in this table.

### Median Percent Change in Compensation

Reward Components	Named Executive Officer				
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
<b>Number</b>	969	912	869	803	659
<b>Base Salary</b>	5.0%	5.3%	5.5%	5.1%	5.6%
<b>Total Annual Compensation</b>	1.6%	2.7%	3.3%	2.0%	2.5%
<b>Total Direct Compensation</b>	0.5%	2.7%	3.3%	1.0%	1.0%

Please note that reported changes reflect the annual increase or decrease from amounts reported between the 2008 to 2009 proxy seasons. Amounts reported in 2008 were earned in 2007. Amounts reported in 2009 were earned in 2008.

# Level of Rewards

## Base Salary

All Companies

The chart below illustrates individual pay levels of Median Base Salary by percentile according to each position in our analysis.

As supported by the table below, base salaries are typically more equal than other elements of pay, partly because of the \$1 million cap on tax deductibility per 162(m), and their limited role in tying pay to performance.

To illustrate the difference between the degree of variance in Base Salary vs. Total Direct Compensation, the base salary of CEOs at the 50<sup>th</sup> Percentile in our study is roughly two times that of the other Named Executive Officers (\$650,000 compared to \$350,000). Contrast this with the Total Direct Compensation of CEOs at the 50<sup>th</sup> Percentile in our study which is roughly 14 times than of the other Named Executive Officers (\$1,186,000 compared to \$359,000).

### Median Base Salary

Percentile	Named Executive Officer						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
90 <sup>th</sup> Percentile	\$1,186,884	\$736,638	\$629,867	\$570,667	\$529,990	\$600,000	\$2,369,152
80 <sup>th</sup> Percentile	1,000,000	600,000	516,640	466,308	439,349	489,060	1,940,563
70 <sup>th</sup> Percentile	878,950	514,559	443,750	407,500	385,000	433,023	1,699,650
60 <sup>th</sup> Percentile	761,769	458,227	398,079	359,346	339,538	388,404	1,492,373
50 <sup>th</sup> Percentile	666,549	400,000	352,323	321,750	306,604	347,375	1,330,888
40 <sup>th</sup> Percentile	591,667	358,917	319,184	295,000	280,000	314,994	1,193,798
30 <sup>th</sup> Percentile	505,814	320,775	287,516	267,295	250,000	281,645	1,058,518
20 <sup>th</sup> Percentile	443,743	279,708	255,652	236,568	223,491	251,181	916,900
10 <sup>th</sup> Percentile	359,044	228,878	211,442	200,000	193,893	210,341	711,272

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

# Level of Rewards

## Annual Incentive

All Companies

The chart below illustrates individual pay levels of Median Annual Incentive by percentile according to each position in our analysis.

Across the entire sample, the range of annual incentives is consistent both for individuals and across positions, but with a wide degree of variance within a given position.

According to our data, the average Annual Incentive of a CEO is two to four times more than the remaining Named Executive Officers across positions within a percentile. However, for the same position across percentiles, the range varies significantly – from 15 to 40 times greater at the highest percentiles compared to the lowest percentiles.

### Median Annual Incentive

Percentile	Named Executive Officer						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
90 <sup>th</sup> Percentile	\$2,076,394	\$986,740	\$712,143	\$622,537	\$500,000	\$654,000	\$2,587,439
80 <sup>th</sup> Percentile	1,251,562	600,000	440,000	354,923	319,011	403,626	1,591,175
70 <sup>th</sup> Percentile	850,000	417,225	310,092	250,044	239,670	302,567	1,163,530
60 <sup>th</sup> Percentile	599,303	298,444	231,425	197,322	179,360	220,847	853,589
50 <sup>th</sup> Percentile	425,530	216,891	157,025	144,000	123,844	168,015	614,940
40 <sup>th</sup> Percentile	251,895	150,000	111,055	100,040	86,178	113,650	415,257
30 <sup>th</sup> Percentile	137,902	89,192	71,910	61,724	53,846	74,051	265,725
20 <sup>th</sup> Percentile	443,743	25,000	23,467	22,444	20,000	30,448	102,890
10 <sup>th</sup> Percentile	-	-	-	-	-	-	-

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

# Level of Rewards

## Total Annual Compensation

All Companies

The chart below illustrates individual pay levels of Total Annual Compensation by percentile according to each position in our analysis.

Across the entire sample, the range of Total Annual Compensation is consistent both for individuals and across positions.

According to our data, the average Total Annual Compensation of a CEO is approximately two times more than the remaining Named Executive Officers across positions within a percentile. For the same position across percentiles, the range varies from four to six times greater at the highest percentiles compared to the lowest percentiles.

### Median Total Annual Compensation

Percentile	Named Executive Officer						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
90 <sup>th</sup> Percentile	\$3,153,993	\$1,632,941	\$1,259,667	\$1,096,281	\$1,026,428	\$1,222,343	\$4,794,580
80 <sup>th</sup> Percentile	2,159,350	1,162,696	920,990	799,088	727,111	884,042	3,444,729
70 <sup>th</sup> Percentile	1,628,231	931,435	740,451	650,055	604,690	727,767	2,857,912
60 <sup>th</sup> Percentile	1,300,000	754,611	630,408	557,977	516,875	621,433	2,391,350
50 <sup>th</sup> Percentile	1,104,087	632,879	536,534	479,750	444,990	520,063	1,996,919
40 <sup>th</sup> Percentile	927,300	537,691	458,230	415,800	385,185	445,288	1,712,416
30 <sup>th</sup> Percentile	758,219	458,128	390,489	354,786	333,000	391,460	1,435,628
20 <sup>th</sup> Percentile	612,323	378,661	325,806	300,631	285,000	324,548	1,191,851
10 <sup>th</sup> Percentile	465,000	289,018	264,350	249,570	237,938	261,340	863,746

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

# Level of Rewards

## Long-term Incentives

### All Companies

The chart below illustrates individual pay levels of Median Long-term Incentives by percentile according to each position in our analysis.

Across the entire sample, the variation in long-term incentive compensation between lower and top percentile companies is the lack of long-term incentives awarded to executives in the lowest percentile companies which makes a big difference in total pay.

As an aside, the information below is much more representative of compensation for the executive team than is reported in the newspapers when they selectively choose to critique \$150M bonuses. As one can see, those packages are clearly outliers.

### Median Long-term Incentives

Percentile	Named Executive Officer						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
90 <sup>th</sup> Percentile	\$6,518,568	\$2,620,811	\$1,817,584	\$1,400,669	\$1,156,172	\$1,704,108	\$6,483,372
80 <sup>th</sup> Percentile	3,665,888	1,446,244	1,019,545	840,464	699,289	1,009,450	3,910,388
70 <sup>th</sup> Percentile	2,467,120	986,067	704,747	571,433	453,831	670,018	2,562,741
60 <sup>th</sup> Percentile	1,583,913	660,243	447,587	392,934	311,898	457,957	1,719,982
50 <sup>th</sup> Percentile	1,067,218	446,885	326,943	277,918	217,192	315,839	1,174,294
40 <sup>th</sup> Percentile	699,121	287,647	233,821	194,526	138,993	222,494	819,190
30 <sup>th</sup> Percentile	371,056	172,254	134,693	107,156	75,025	137,170	482,391
20 <sup>th</sup> Percentile	95,465	66,545	39,035	33,888	15,802	58,525	177,996
10 <sup>th</sup> Percentile	-	-	-	-	-	-	-

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

# Level of Rewards

## Total Direct Compensation

All Companies

The chart below illustrates individual pay levels of Median Total Direct Compensation by percentile according to each position in our analysis.

Clearly by adding long-term incentives, the difference in Total Direct Compensation between the 10th percentile and 90th percentile widens the gap in pay between smaller and larger companies.

We can assume that this is another good sign that ties to performance are having an impact on executive pay through better use and application of long-term incentive vehicles.

### Median Total Direct Compensation

Percentile	Named Executive Officer						
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Average 2-5	Total 2-5
90 <sup>th</sup> Percentile	\$9,085,704	\$4,088,015	\$3,070,732	\$2,510,817	\$2,120,985	\$2,972,018	\$11,547,579
80 <sup>th</sup> Percentile	6,014,498	2,589,070	1,961,526	1,621,231	1,445,419	1,896,388	7,456,905
70 <sup>th</sup> Percentile	4,170,655	1,922,129	1,475,131	1,212,986	1,064,170	1,397,635	5,494,666
60 <sup>th</sup> Percentile	2,984,639	1,526,511	1,152,536	985,555	851,492	1,114,931	4,324,284
50 <sup>th</sup> Percentile	2,343,531	1,200,000	967,026	812,728	713,053	923,642	3,456,276
40 <sup>th</sup> Percentile	1,842,833	936,376	759,004	661,850	586,164	749,348	2,819,122
30 <sup>th</sup> Percentile	1,490,818	730,818	604,804	533,845	471,860	583,602	2,196,049
20 <sup>th</sup> Percentile	1,024,671	565,004	461,740	413,088	367,168	456,547	1,644,531
10 <sup>th</sup> Percentile	659,730	393,899	328,396	303,163	281,413	326,505	1,110,845

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

# Level of Rewards

## Base Salary Percent Change

All Companies

The chart below illustrates the Median Percent Change in Base Salary for the Top 5 positions across all sampled companies.

Remarkably, there appears to be significant variation between changes in base salary at the lower and upper percentiles as no changes occurred in the lowest percentile yet increases in the upper percentiles range from 17% to 20%.

We hope this is a result of performance. We are encouraged by the distribution of pay increases and can only assume it is an expression of Boards' impressions and actions relating to the performance of executives at their respective companies.

### Median Percent Change in Base Salary

Percentile	Named Executive Officer				
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
90 <sup>th</sup> Percentile	18.3%	19.9%	19.2%	17.0%	18.2%
80 <sup>th</sup> Percentile	11.7%	12.1%	12.5%	11.7%	12.4%
70 <sup>th</sup> Percentile	8.9%	9.3%	9.4%	9.0%	9.5%
60 <sup>th</sup> Percentile	6.7%	6.8%	7.0%	6.5%	7.2%
50 <sup>th</sup> Percentile	5.0%	5.3%	5.5%	5.1%	5.6%
40 <sup>th</sup> Percentile	4.1%	4.3%	4.4%	4.3%	4.3%
30 <sup>th</sup> Percentile	3.2%	3.5%	3.7%	3.7%	3.6%
20 <sup>th</sup> Percentile	0.4%	2.3%	2.7%	2.8%	2.5%
10 <sup>th</sup> Percentile	0.0%	0.0%	0.0%	0.0%	0.0%

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

Please note that reported changes reflect the annual increase or decrease from amounts reported between the 2008 to 2009 proxy seasons. Amounts reported in 2008 were earned in 2007. Amounts reported in 2009 were earned in 2008.

# Level of Rewards

## Total Annual Compensation Percent Change

All Companies

The chart below illustrates the Median Percent Change in Total Annual Compensation for the Top 5 positions across all sampled companies.

The table below signals dramatic changes in Total Annual Compensation from the prior year. For example, while some CEOs were getting 50% increases from one year to the next, others were receiving a decrease of more than 40%, resulting in a 90% variance within one position. That's an amazing change which we have to assume reflects changes in annual pay caused by performance.

We can only assume and hope that those executives who met or exceeded targets are in the top percentiles, and those that did not meet targets are in the bottom.

### Median Percent Change in Total Annual Compensation

Percentile	Named Executive Officer				
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
90 <sup>th</sup> Percentile	53.1%	41.8%	40.6%	33.4%	39.6%
80 <sup>th</sup> Percentile	26.6%	21.5%	23.4%	19.0%	20.3%
70 <sup>th</sup> Percentile	14.1%	13.0%	13.5%	11.8%	13.0%
60 <sup>th</sup> Percentile	7.1%	7.5%	7.1%	6.4%	7.0%
50 <sup>th</sup> Percentile	1.6%	2.7%	3.3%	2.0%	2.5%
40 <sup>th</sup> Percentile	(4.8%)	(1.8%)	(0.9%)	(3.9%)	(3.6%)
30 <sup>th</sup> Percentile	(13.8%)	(9.8%)	(8.9%)	(10.7%)	(10.1%)
20 <sup>th</sup> Percentile	(28.9%)	(19.5%)	(17.7%)	(19.6%)	(19.8%)
10 <sup>th</sup> Percentile	(44.1%)	(34.2%)	(30.1%)	(32.7%)	(30.0%)

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

Please note that reported changes reflect the annual increase or decrease from amounts reported between the 2008 to 2009 proxy seasons. Amounts reported in 2008 were earned in 2007. Amounts reported in 2009 were earned in 2008.

# Level of Rewards

## Total Direct Compensation Percent Change

All Companies

The chart below illustrates the Median Percent Change in Total Direct Compensation for the Top 5 positions across all sampled companies.

Similar to the prior page, the table below illustrates significant year-to-year changes in Total Direct Compensation. While some CEOs nearly doubled their Total Direct Compensation; others received a 50% reduction in base, annual, and long-term incentives from the prior year. This results in an astounding 140% spread between the highest and lowest percentile. The remaining Named Executive Officers reveal similar dramatic variances.

We can only hope that journalists who report on compensation abuses take note that some companies are getting it right!

Median Percent Change in Total Direct Compensation

Percentile	Named Executive Officer				
	CEO	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
90 <sup>th</sup> Percentile	96.3%	85.6%	58.7%	63.2%	68.4%
80 <sup>th</sup> Percentile	44.9%	40.1%	32.9%	31.9%	32.6%
70 <sup>th</sup> Percentile	21.9%	20.4%	18.9%	15.5%	16.5%
60 <sup>th</sup> Percentile	9.0%	10.6%	8.8%	7.2%	7.5%
50 <sup>th</sup> Percentile	0.5%	2.7%	3.3%	10%	1.0%
40 <sup>th</sup> Percentile	(7.5%)	(5.4%)	(5.4%)	(5.8%)	(3.6%)
30 <sup>th</sup> Percentile	(17.7%)	(14.8%)	(15.0%)	(13.7%)	(15.4%)
20 <sup>th</sup> Percentile	(32.2%)	(28.2%)	(26.0%)	(25.1%)	(26.0%)
10 <sup>th</sup> Percentile	(50.1%)	(45.0%)	(43.9%)	(39.1%)	(42.6%)

Please note that the percentiles above indicate a one dimensional grouping of pay by position as opposed to a two dimensional grouping by company size or industry.

Please note that reported changes reflect the annual increase or decrease from amounts reported between the 2008 to 2009 proxy seasons. Amounts reported in 2008 were earned in 2007. Amounts reported in 2009 were earned in 2008.