Executive Compensation Trends for 2009:

Balancing Risk, Performance and Pay

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Introduction

There have been substantial changes reported by companies in their 2009 proxy statements following an unprecedented drop in stock prices. This study reviewed 200 of the largest companies (by market capitalization) that comprise the S&P 500 Stock Index. We reviewed "forward looking" statements with regard to changes in 2009, which is the focus for this study.

Surprisingly, 70 percent of companies reported changes to their 2009 executive compensation programs. These range from "minor changes" relating to salaries to "major changes" relating to short and long-term incentive programs. We also reviewed changes to severance, retirement and perquisites programs. In our study, we reviewed each proxy statement for a description of prospective changes for 2009 in response to the economic downturn and increased shareholder scrutiny.

Incentive compensation comprises the bulk of executive pay packages at publicly traded companies. Boards of directors and senior management are continually searching for the right performance measures to balance rewards with both financial and operational performance. It's a complex task, and the stakes have been raised.

In 2007, the SEC began requiring companies to disclose performance measures and goals related to executive pay programs. At the same time, many companies have been shifting the basis for their long-term incentive ("LTI") plans away from stock options to performance-based share plans.

The area of performance metrics includes multiple factors related to the alignment of pay and performance. These are crucial to the overall executive program design and should be included in the compensation philosophy. Some of the factors include:

- Changes to salary
- Performance measures
- LTI pay mix
- Amount paid in cash immediately or amount deferred (typically in stock)
- Pay for performance (minimum, target, and maximum)
- Severance pay
- Stock ownership guidelines

We included changes to salary and severance pay as part of performance metrics because there may be a disconnect between pay and performance. For example, an executive may receive a salary increase in the face of disastrous corporate results or get a large severance pay for failure.

Executive compensation program changes reported for 2009 appear to be primarily related to broad-based stock price drop from December 31, 2007 to February 28, 2009. The greater the drop in stock price, the more likely it is that a company reported a change to their program. This relationship also applies to each element of compensation.

To assist in our study, we categorized changes as "minor" or "major". Minor changes are related to adverse salary changes. Major changes primarily relate to short- and long-term incentive plans, but we have also included changes to severance, retirement and perquisite programs in this category as well.

Part I. Study Highlights

In general, incentive plans have changed as follows:

- A shift away from long-term incentives to include more focus on short-term incentive plans;
- Short-term incentive ("STI") plan performance measures shifted to profit and cash flow from capital efficiency;
- Long-term incentive plan performance measures shifted to capital efficiency, cash flow and total shareholder return; and
- Companies are increasing their emphasis on time-vested restricted stock ("RS") and restricted stock units ("RSUs").

Specifically, a substantial majority (70 percent) of companies that filed proxy statements disclosed changes to their executive compensation programs effective in 2009 that will impact pay levels reported in next year's proxy. Highlights of the changes are as follows:

- *Base Salary*: Eliminated merit increases for 2009 (43 percent) and froze or reduced base salaries for 2009 (13 percent);
- *Short Term Incentives*: Adjusted short-term incentive program (e.g., move to discretionary plans, changes to Pay for Performance Curve[1]);
- *Long Term Incentives*: Adjusted long-term incentive grants (e.g., awarding the same number of shares regardless of value, decreasing the value of awards, changing the mix of award types, and changes to Pay for Performance Curve) (39 percent); and
- *Other Elements of Compensation*: Changed various other elements of compensation (e.g., modifying change-in-control ("CIC") benefits, eliminating tax gross-ups on perquisites, reducing retirement benefits) (15 percent). Modified CEO's change-in-control benefits (e.g., reducing the severance multiple)[2] (4 percent).

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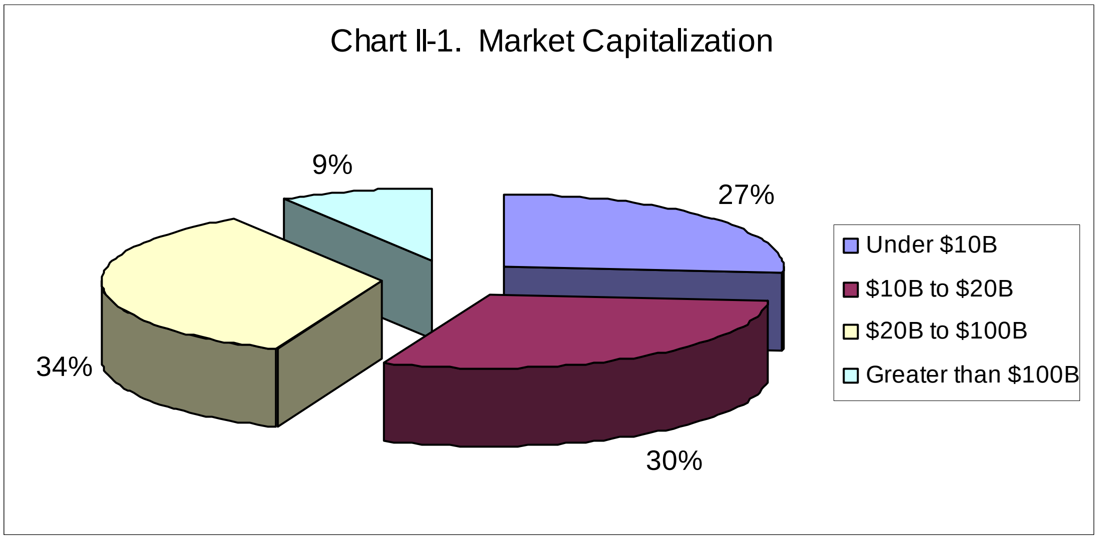
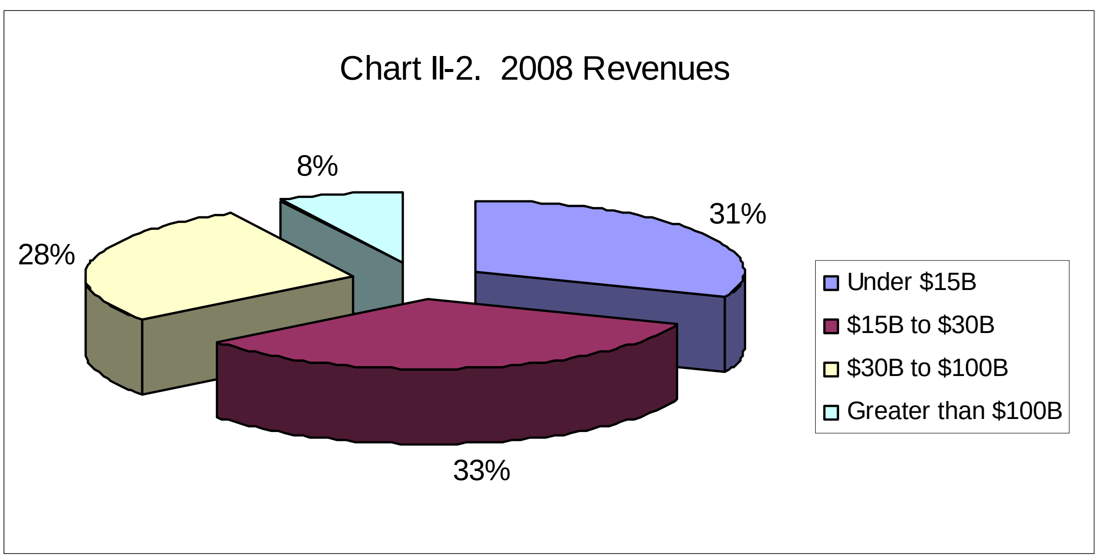
[1] Pay for performance curve ("Pay for Performance Curve") is the relationship between threshold, target or maximum performance levels and the corresponding threshold, target or maximum payout levels.
[2] Overall, there was no decline in the overall prevalence of gross-ups (full or modified), despite strong criticism of their use from some institutional shareholders and proxy advisory groups (e.g., RiskMetrics Group).

Part II. Approach and Methodology

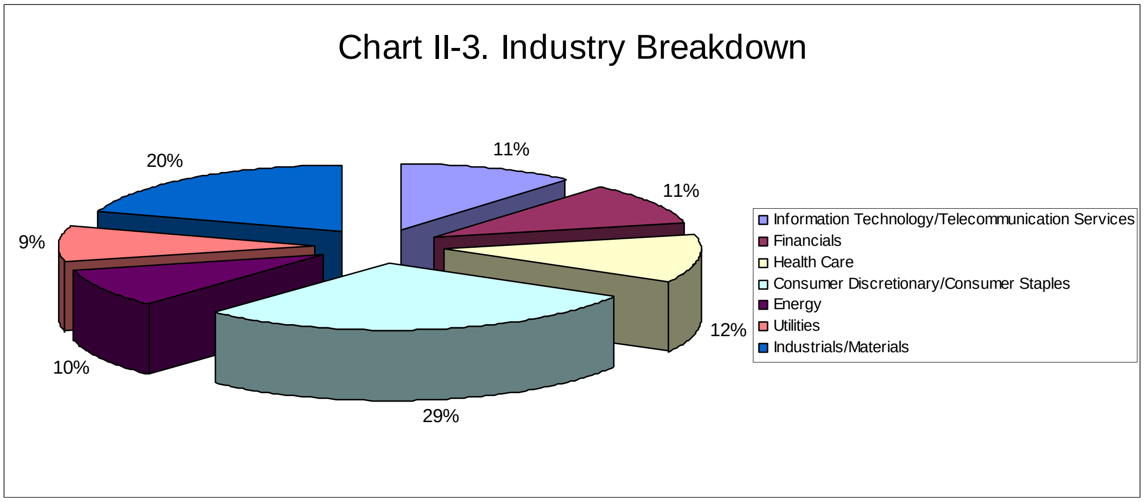
Among the 200 largest companies (by market capitalization) of the S&P 500 Index, 191 companies filed proxy statements predominantly during the period February 1, 2009 through April 30, 2009 and before July 28, 2009.[3]

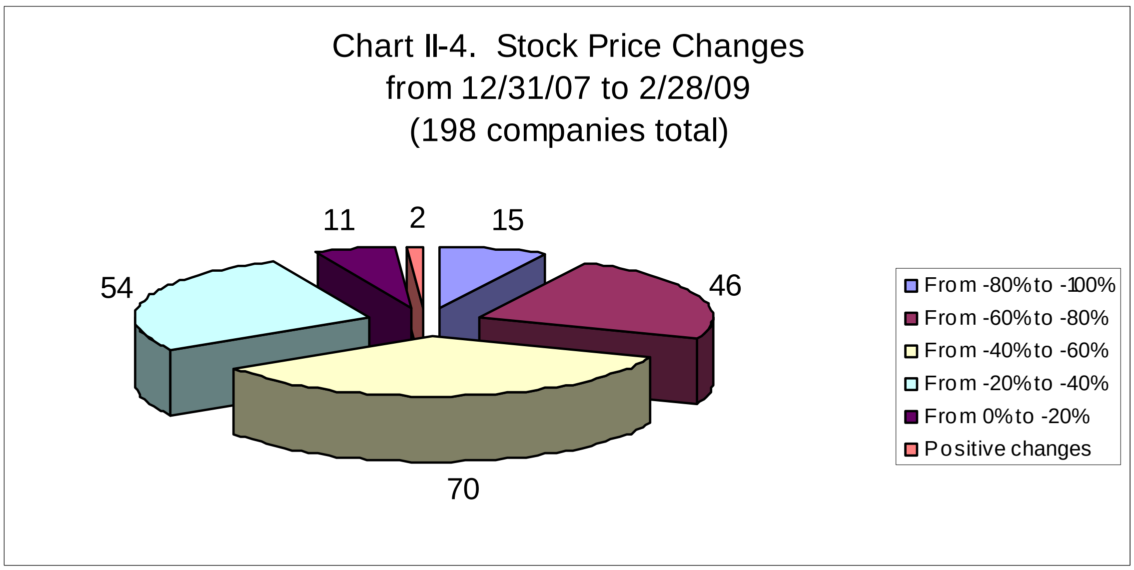
Below is a summary of the market capitalization, revenue and industry classification of the 200 companies chosen at the beginning of this study.





[3] 12 of the companies examined in this study have been part of the TARP (8 have already repaid TARP funds in 2009).





- General Motors (bankruptcy filing) and Philip Morris (not spun-off from Altria as of 12/31/07) are part of the 200 companies reviewed in this study but excluded from the stock price change analysis.
- Only two companies have experienced an increase in stock price (Amgen Inc and Walgreen Co).
- 70 companies had a stock price drop of between 40 percent and 60 percent.
- The median stock price change is negative 49 percent, or in other words, the typical company in this study lost about half of its value from 12/31/07 through the period leading up to the filing of the proxy statement.

For the purpose of this study we made a distinction between minor and major changes disclosed by 191 companies that have reported for 2009 (9 companies have yet to report by the effective date of this study). Because the typical mix of pay at the NEO level is skewed toward incentive compensation, we separated the changes with regard to the overall impact on total pay. Our categorization is as follows:

- "Minor changes" denote changes concerning base salary (e.g., freeze or reduction).
- "Major changes" relate to short- and long-term incentive plan changes as well as changes to severance, retirement and perquisite programs.
- No changes.

Part III. Findings

Overall, incentive trends can be summarized as follows:

- Overall, there has been a move away from long-term incentives and a shift toward short-term incentive plans,
- Short-term incentive plan performance measures shifted to profit and cash flow from capital efficiency,
- Long-term incentive plan performance measures shifted to capital efficiency, cash flow and total shareholder return, and
- Companies are emphasizing time-vested restricted stock and RSUs.

Specifically, 70 percent of companies that filed proxy statements by our deadline disclosed changes to their executive compensation programs effective in 2009 that will impact pay levels reported in next year's proxy. Highlights of the changes are as follows:

- Eliminated merit increases for 2009 (43 percent)
- Froze or reduced base salaries for 2009 (13 percent)
- Adjusted long-term incentive grants (e.g., awarding the same number of shares regardless of value, decreasing the value of awards, or changing the mix of award types) (39 percent)
- Adjusted short-term incentive program (e.g., moving to discretionary plans, widening payout ranges/decreasing thresholds, decreasing maximums) or applying negative discretion for bonus payouts (25 percent)
- Changed various other elements of compensation (e.g., changing CIC benefits, eliminating tax gross-ups on perquisites, reducing retirement benefits) (15 percent)
- Modified CEO's change-in-control benefits (e.g., reducing the severance multiple)[4] (4 percent)

Who is Changing their Executive Compensation Program?

As you may expect, companies who experienced large stock price drops tended to report changes to their executive compensation program, particularly regarding salary freezes and salary reductions as well as changes to incentive plans. Accordingly, 70 percent of 191 companies have reported changes for 2009. These changes are closely related to the overall drop in stock price, particularly for companies experiencing an approximate 50% or greater decline in value.

Chart III-1. Overview of Incident of Change

	No. of Companies	Percent of Companies
Companies that have reported in 2009	191	100 percent
No changes reported	57	30 percent
Minor changes reported (base salary)	94	49 percent
Major changes reported (short-term and long-term incentive plans, severance, perquisites and retirement plans)	108	57 percent
Companies that have reported changes	**134**	**70 percent**

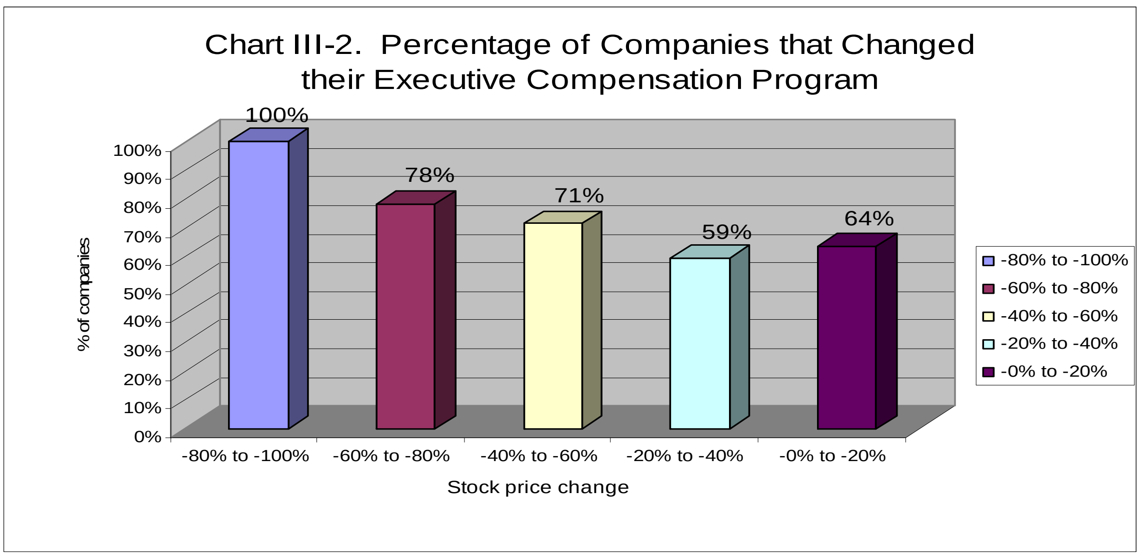
[4] Overall, there was no decline in the overall prevalence of gross-ups (full or modified), despite strong criticism of their use from some institutional shareholders and proxy advisory groups (e.g., RiskMetrics Group).

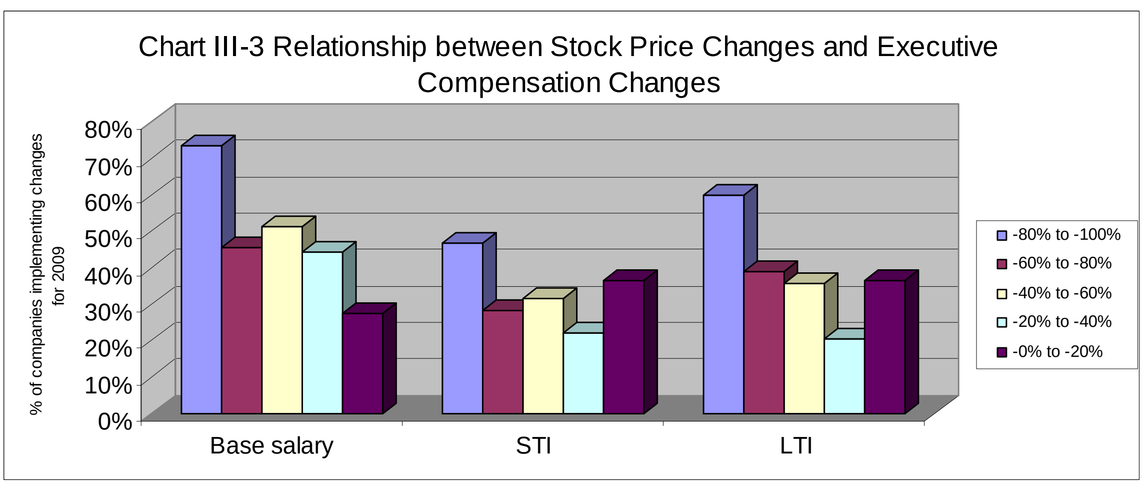
According to our study, 108 (57 percent) companies have reported a major change for 2009. This seems to show that the majority of large companies disclosed their intentions for the next year's executive compensation even though it is not clear that the SEC rules require disclosure of prospective changes.

Companies are most likely underreporting 2009 executive pay actions. This data suggests a selective nature of the disclosure as it is not clear if the Securities and Exchange Commission requires prospective disclosure on plans and programs. The 30 percent of companies that reported no changes to their programs may be misleading, particularly given the dramatic nature of the decline in the economy which began in the fall of 2008 and continued through the proxy filing season.

Relationship between Drop in Stock Price and Changes to Executive Compensation Programs

All companies with catastrophic stock price drops (more than negative 80 percent) made changes to their executive compensation programs in 2009. This trend of changing compensation programs lessens with smaller stock price drops.





What Do the Changes Look Like?

There are five elements to compensation, which are as follows:

- Base salary, including cost of living, merit and promotional increases;
- Short-term incentives, including changes to Pay for Performance Curve, performance measures, and forms of payout;
- Long-term incentives, including changes to Pay for Performance Curve, performance measures, and types of programs;
- Benefits and perquisites, including basic benefits, SERPs, retirement, personal use of aircraft, financial counseling and other excess benefit plans; and
- Severance, including severance with or without a CIC, death, disability and other.

For this study, we categorized changes to base salary as minor and all other changes as major.

Changes to Base Salary

This category of change only includes base salary. Approximately one-half of all companies reduced or froze salaries or eliminated merit increases with regard to base salaries (49 percent). A breakdown of changes to salaries is as follows:

- Eliminated merit increases for 2009 (43 percent),
- Froze salaries (7 percent), and
- Reduced executive salaries with a median salary cut of 10 percent (6 percent). Of these 12 companies, 8 applied the cut to all the top-executives (typically, the "Named Executive Officers") and 4 applied it to the CEO only.

Changes to Incentive Plans

In our study, we categorized three different types of major changes:

- Changes to the STI Plan (25 percent) including changes to performance measures, goals, target bonus opportunities and pay for performance curves,
- Changes to the LTI Plan (39 percent) including changes to LTI mix, performance measures, grants, cash plans, performance periods or goals, and
- Changes to severance, perquisites or retirement plans (15 percent).

Overall, there has been a shift away from long-term incentives and more focus on short-term incentive plans.

While performance measures have been emphasized in short- and long-term incentives, the LTI incentive has been substantially reduced, resulting in a larger percentage of compensation associated with the short-term incentive plan. The reasons for this shift are three-fold:

- More focus on short-term cash flow,
- More variability and less predictability for longer-term financial results, and
- The difficulty to provide the same LTI incentive value in 2009 when the stock price has been cut in half while the STI target value has remained about the same as 2008.

Changes to Short-Term Incentive Plans

One-fourth of all companies changed their STI plan in 2009. A summary of these changes is as follows:

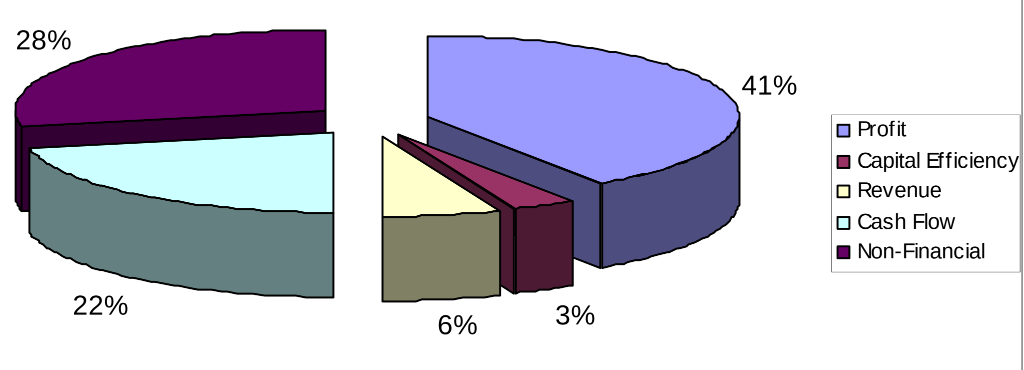
- Changed the weights of their performance measures (13 percent). The emphasis on STI performance measures was increased 32 times and decreased 22 times for a net increase in emphasis of 10. (See Chart III-4.)
- Other modifications to their STI plan such as changes to (i) target bonus opportunities or (ii) to the pay for performance curve (10% percent).
- Introduced intermediate or mid-performance period goals (2 percent).
- Cancelled the STI plan for 2009 (one company or less than 1 percent).

The importance of short-term incentive performance measures is shown in the number of weight changes planned for 2009. The results also show that profit and cash flow measures increased by an aggregate of 15.

Chart III-4. Changes in STI Performance Measures

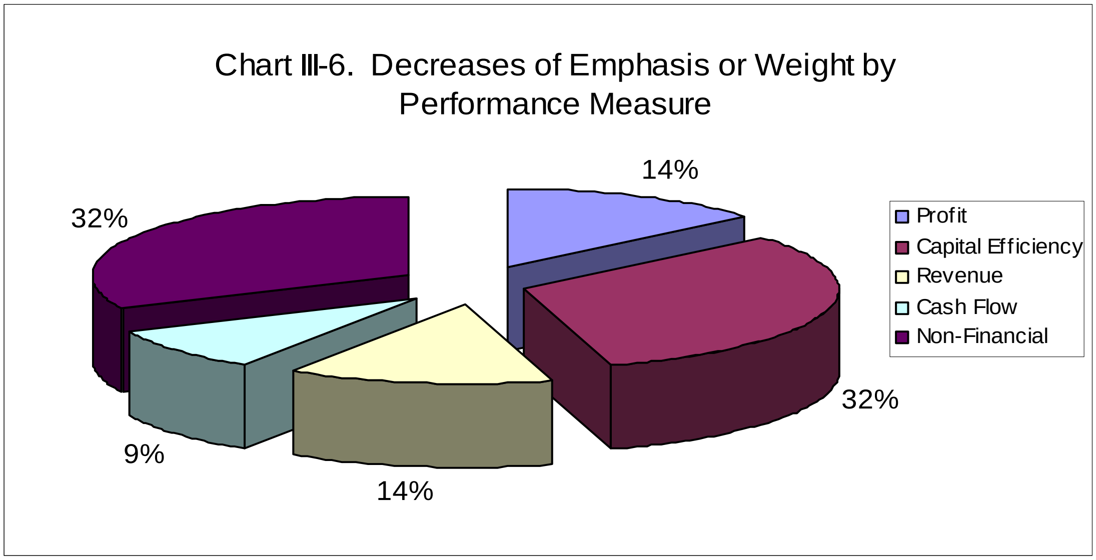
	Changes to Weight or Emphasis		
Performance Criteria Type	**No of Reported Increases**	**No of Reported Decreases**	**Net Changes**
Profit: Earnings per share, net income, EBIT/EBITDA, pretax profit, operating income.	13	3	10
Cash Flow: Cash flow, cash flow growth	7	2	5
Non-Financial: Strategic goals, individual goals, liquidity, market share, overall performance of the company, team incentive.	9	7	2
Revenue: Revenue, revenue growth	2	3	-1
Capital Efficiency: Return on equity, return on capital, return on net assets, return on invested capital, economic value added	1	7	-6
TOTAL	32	22	10

Chart III-5. Increases of Emphasis or Weight by Performance Measures



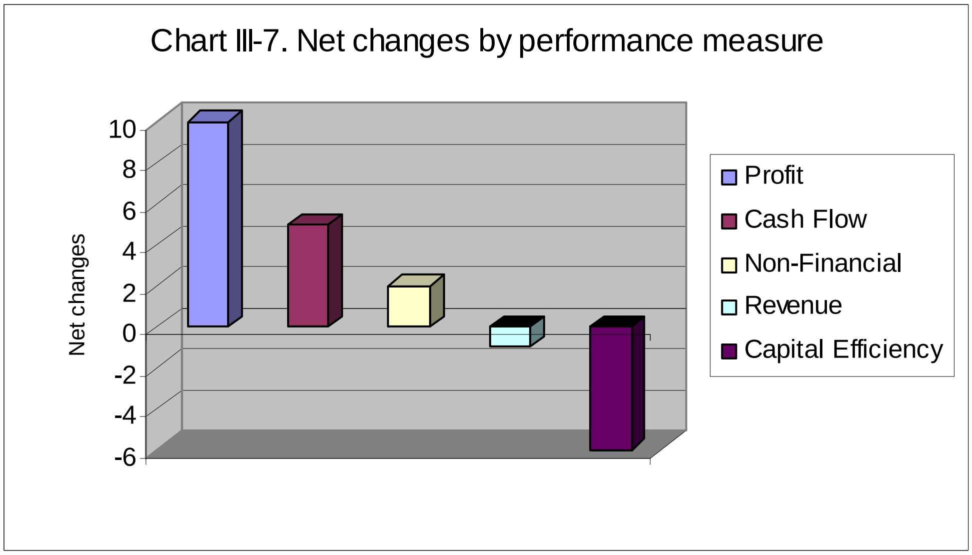
During an economic downturn, companies tend to focus more heavily on cash flow. Hence, seven companies (representing 23 percent of the reported increases) increased the weight on this type of measure. For example, Office Depot Inc (NYSE: ODP) added Cash Flow as one of their STI measures for 2009.

In addition, profitability has also been emphasized by companies since the earnings per share ("EPS") weight has been increased by six companies (19 percent of the reported increases) and Operating Income weight has been increased by three companies (10 percent of the reported increases). For example, Tesoro Corp (NYSE: TSO) increased the weights of free cash flow, operating income and EPS for 2009.



On the other hand, in these difficult times, capital efficiency as a performance measure has declined in importance. Hence, the Return on Equity ("ROE") weight has been decreased by three companies (15 percent of the reported decreases). For example, Public Service Enterprise Group (NYSE: PEG) has replaced ROE by EPS.

Ten percent of companies (20 companies) made other changes to their 2009 STI program, such as changing their performance curve or their target bonus opportunities.



Changes to the STI Pay for Performance Curve

Fifteen companies made changes to their Pay for Performance Curve. The details of these changes are as follows:

- Decrease target payout level (3 companies) and increase target payout level (2 companies),
- Decrease maximum payout level (4 companies),
- Increased the difficulty to reach target payout for 2009 (2 companies),
  - Changed the definition and the target of their measures (3 companies), and
  - Lowered the performance threshold from 50 percent to 25 percent of the target (1 company).

3 companies made other changes to their 2009 STI plans, including:

  - Announcement at the beginning of the performance period that their NEOs will forego their bonus in 2009 (2 companies) and
  - Announcement that a new STI Plan will be designed in 2009 for second half of 2009 (1 company).

Changes to Long-Term Incentive Plans

Changes to the LTI Plan (74 companies) include changes to LTI mix, performance measures, grants, cash plans, performance periods or goals.

The majority of reported changes impact LTI plans (39 percent). A breakdown of the changes is as follow:

- Shifts in LTI mix (17 percent),
- Change in LTI performance measures (9 percent)—see Chart III-7,
- Reduction of LTI grants (7 percent) with a median decrease of 15% in value. The reductions typically apply to all NEOs (all but two cases),
- Cancellation of LTI cash plan (3 percent),
- Lengthening of the performance period (2 percent), and
- Introduction of intermediate goals (2 percent).

Chart III-8. Changes in LTI Performance Measures

	Changes to Weight or Emphasis		
Performance Criteria Type	**No of Reported increases**	**No of Reported Decreases**	**Net Changes**
Capital Efficiency: Return on equity, relative return on equity, return on invested capital, economic value added	5	0	5
Cash Flow: Free cash flow, operating cash flow	2	0	2
Total Shareholder Return: Stock price appreciation plus dividends (relative and absolute)	6	4	2
Profit: EPS, relative EPS growth, net income, corporate income, operating income, operating profit, OIBDA	5	5	0
Other: relative measure based on total direct premiums written, absolute measure based on vested net premiums earned	1	1	0
TOTAL	19	10	9

Chart III-9. Weight Changes by Performance Measures

Specific Performance Measures	Increased	Decreased
Total Shareholder Return ("TSR")	6	4
Return On Invested Capital	2	0
Earnings Per Share Growth (relative measure)	1	0
Average Return On Equity	1	0
Return On Equity (relative measure)	1	0
Economic Value Added	1	0
Operating Profit	1	0
Net Income	1	0
Corporate Income	1	0
Operating Cash Flow	1	0
Free Cash Flow	1	0
Total Direct Premiums Written (relative measure)	1	0
Earnings Per Share	1	4
Operating Income Before Depreciation and Amortization	0	1
Vested Net Premiums Earned (absolute measure)	0	1
Total Number of Measures Changed	19	10

Total Shareholder Return weight continues to increase in LTI plans. It has been added by six companies and represents 32 percent of the reported increases. Overall, the emphasis in LTI programs appears to be on capital efficiency, cash flow and TSR.

Change in LTI Mix

17 percent of companies have changed their LTI mix with the pronounced effect resulting in a move from stock options to restricted shares and units.

Chart III-10 Changes in LTI mix

Type of Plan	No of Reported Increases	No of Reported Decreases	Net Changes
Restricted Shares and Units	13	9	4
Performance Shares and Units	13	14	-1
Stock Options and SARs	6	16	-10
Total	32	39	-7

Other Items of Interest

Approximately one quarter of the companies have reported changes in 2009 on an exclusive basis.

For example:

- Changes to their base salary only (14 percent),
- Changes to their LTI program only (7 percent), and
- Changes to their STI program only (3 percent).

Changes to Severance, Perquisites and Retirement Plans

28 companies (15 percent) have announced some changes to their severance, retirement and/or perquisite programs.

- Reduced their severance package (e.g., reduced their severance multiple, CIC payments or eliminated their tax gross-up) (4 percent),
- Eliminated perquisites or cancelled their tax gross-ups associated with payment of perquisites that result in imputed income (9 percent),
- Modified their retirement plans (e.g., suspension of contributions to the 401(k), frozen or eliminated SERP benefits) (3 percent), and
- Introduced clawback policies that will cancel or recoup incentive awards if executive officers engage in bad behavior of various types (3 percent).

Summary

Our findings show:

(i) Greater focus on short-term cash flow results which is counter to the direction suggested by the U.S. Treasury, academics and other expert advisers regarding ways to mitigate risk, which is to encourage a long-term perspective by subjecting more compensation to stock price risk; and
(ii) More reliance on restricted stock and restricted stock units which is not performance-based as it vests simply with the passage of time.

We suggest that companies consider:

(a) Rebalancing their short- and long-term incentive target opportunity levels which may result in (x) a reduction of STI levels, or (y) a combination of reduction of STI levels and a slight increase in LTI levels;
(b) Change the LTI mix away from restricted stock (or units) to a more performance-based award program; and
(c) Revise the pay for performance curves for both short- and long-term incentive plans by reducing maximum payout levels.

These changes collectively will better align corporate risk, corporate performance and executive pay.

Companies strive to balance risk vs. reward vs. corporate performance. Recent proposed legislation and SEC rules changes will require companies to discuss corporate risk with regard to executive compensation. Each company needs to determine the executive compensation program that is right for them taking into account the various types of risk.

There are various types of risk that need to be addressed. Here are a few of the risks:

- Setting the wrong goals which may substantially impair the company and not create value;
- Paying too much compensation that is not closely connected to performance (e.g., restricted stock, guaranteed or retention bonuses, large severance payouts with our without a change-in-control, large pension entitlements, generous perquisites);
- Paying too much of the pay in incentive compensation combined with a small salary that may encourage risky behavior with either corporate strategy or financial accounting;
- Creating windfall compensation (e.g., large severance payout or extremely large bonus);
- Overpaying executives in a systematic way over a period of time which depletes the financial vitality of the company; and
- Paying cash bonuses for short-term performance that turns out to be specious and ultimately causes stock price to drop over time.

There are many examples that are associated with each of these types of risks.

Suggestions for ways to reduce risk and align pay with performance:

- *Increased emphasis on long-term pay:* Unlike short-term incentives, long- term pay keeps management focused on the long-term value creation and protects shareholders from paying compensation based on short-term results, and at times, specious results. Subject more compensation to stock price risk: Partial (40% or more) deferral of bonus into company stock: This protects companies from paying enormous payouts for short-term spikes. Other ideas to consider to subject pay to stock price risk:
  - *Stock ownership requirements:* Requiring significant ownership in the company is a way in which management provides additional "skin in the game" and subjects wealth accumulation to stock price risk.
  - *Hold equity until retirement:* While similar to stock ownership guidelines, this prevents management from "unloading" equity during high periods of growth and reducing their link to shareholders.

- *Pay Clawbacks:* Protects against the generation of "bad business" that first appears to be profitable but is reversed when the economy or other factors change and ultimately is unprofitable.

- *Impose caps on bonus payouts and reduce maximum payouts:* When companies have unexpected and transitory growth, bonus payment should be capped. What we have learned during this financial meltdown is that companies which had enormous growth were unable to sustain that level of growth and were substantially affected by downturn.

- *Careful use of perquisites:* Although perquisites represent a relatively small portion of pay, they never-the-less have become a focal point of shareholders, shareholder activist groups, and media ire. No gross-ups on pay or benefits of any type.

List of the 200 Companies in the Study Group (Alphabetical Order)

3M CO	COMCAST CORP
ABBOTT LABORATORIES	COMPUTER SCIENCES CORP
AES CORP	CONAGRA FOODS INC
AETNA INC	CONOCOPHILLIPS
AFLAC INC	CONSOLIDATED EDISON INC
ALCOA INC	CONSTELLATION ENERGY GRP INC
ALLSTATE CORP	COSTCO WHOLESALE CORP
ALTRIA GROUP INC	COVENTRY HEALTH CARE INC
AMAZON.COM INC	CSX CORP
AMERICAN ELECTRIC POWER CO	CUMMINS INC
AMERICAN EXPRESS CO	CVS CAREMARK CORP
AMERISOURCEBERGEN CORP*	DANAHER CORP
AMGEN INC	DEAN FOODS CO
ANADARKO PETROLEUM CORP	DEERE & CO
APACHE CORP	DELL INC
APPLE INC*	DEVON ENERGY CORP
ARCHER-DANIELS-MIDLAND CO	DIRECTV GROUP INC
AT&T INC	DISNEY (WALT) CO*
AUTONATION INC	DOMINION RESOURCES INC
BAKER HUGHES INC	DONNELLEY (R R) & SONS CO
BANK OF AMERICA CORP	DOW CHEMICAL
BANK OF NEW YORK MELLON CORP	DU PONT (E I) DE NEMOURS
BAXTER INTERNATIONAL INC	DUKE ENERGY CORP
BEST BUY CO INC	EATON CORP
BOEING CO	EDISON INTERNATIONAL
BRISTOL-MYERS SQUIBB CO	EMC CORP/MA
BURLINGTON NORTHERN SANTA FE	EMERSON ELECTRIC CO*
CAPITAL ONE FINANCIAL CORP	ENTERGY CORP
CARDINAL HEALTH INC	EXELON CORP
CARNIVAL CORP/PLC (USA)	EXPRESS SCRIPTS INC
CATERPILLAR INC	EXXON MOBIL
CBS CORP	FEDEX CORP
CENTERPOINT ENERGY INC	FIRSTENERGY CORP
CHESAPEAKE ENERGY CORP	FLUOR CORP
CHEVRON CORP	FORD MOTOR CO
CHUBB CORP	FPL GROUP INC
CIGNA CORP	FREEPORT-MCMORAN COP&GOLD
CISCO SYSTEMS INC	GAP INC
CITIGROUP INC	GENERAL DYNAMICS CORP
COCA-COLA CO	GENERAL ELECTRIC CO
COCA-COLA ENTERPRISES INC	GENERAL MILLS INC
COLGATE-PALMOLIVE CO	GENERAL MOTORS

* The 9 companies have not filed yet when we reported the changes or have merged in the case of Merck and Wyeth.

GILEAD SCIENCES INC	MORGAN STANLEY	TEXAS INSTRUMENTS INC
GOLDMAN SACHS GROUP INC	MOTOROLA INC	TEXTRON INC
GOODYEAR TIRE & RUBBER CO	MURPHY OIL CORP	TIME WARNER CABLE INC
GOOGLE INC	NATIONAL OILWELL VARCO INC	TIME WARNER INC
HALLIBURTON CO	NEWS CORP	TJX COMPANIES INC
HESS CORP	NIKE INC -CL B	TRAVELERS COS INC
HEWLETT-PACKARD CO*	NORTHROP GRUMMAN CORP	TYCO ELECTRONICS LTD
HOME DEPOT INC	NUCOR CORP	TYSON FOODS INC -CL A
HONEYWELL INTERNATIONAL INC	OCCIDENTAL PETROLEUM CORP	U S BANCORP
HUMANA INC	OFFICE DEPOT INC	UNION PACIFIC CORP
ILLINOIS TOOL WORKS	OMNICOM GROUP	UNITED PARCEL SERVICE INC
INGERSOLL-RAND CO LTD	ORACLE CORP	UNITED STATES STEEL CORP
INTEGRYS ENERGY GROUP INC	PACCAR INC	UNITED TECHNOLOGIES CORP
INTEL CORP	PARKER-HANNIFIN CORP	UNITEDHEALTH GROUP INC
INTL BUSINESS MACHINES CORP	PENNEY (J C) CO	VALERO ENERGY CORP
INTL PAPER CO	PEPSI BOTTLING GROUP INC	VERIZON COMMUNICATIONS INC
ITT CORP	PEPSICO INC	VIACOM INC
JABIL CIRCUIT INC	PFIZER INC	WALGREEN CO
JACOBS ENGINEERING GROUP INC*	PG&E CORP	WAL-MART STORES INC
JOHNSON & JOHNSON	PHILIP MORRIS INTERNATIONAL	WASTE MANAGEMENT INC
JOHNSON CONTROLS INC*	PPG INDUSTRIES INC	WELLPOINT INC
JPMORGAN CHASE & CO	PROCTER & GAMBLE CO	WELLS FARGO & CO
KELLOGG CO	PROGRESSIVE CORP-OHIO	WHIRLPOOL CORP
KIMBERLY-CLARK CORP	PRUDENTIAL FINANCIAL INC	WILLIAMS COS INC
KOHL'S CORP	PUBLIC SERVICE ENTRP GRP INC	WYETH*
KRAFT FOODS INC	QUALCOMM INC	XCEL ENERGY INC
KROGER CO	QWEST COMMUNICATION INTL INC	XEROX CORP
L-3 COMMUNICATIONS HLDGS INC	RAYTHEON CO	YUM BRANDS INC
LILLY (ELI) & CO	SAFEWAY INC	
LOCKHEED MARTIN CORP	SARA LEE CORP	
LOEWS CORP	SCHERING-PLOUGH	
LOWE'S COMPANIES INC	SCHLUMBERGER LTD	
MACY'S INC	SEARS HOLDINGS CORP	
MARATHON OIL CORP	SOUTHERN CO	
MARRIOTT INTL INC	SPRINT NEXTEL CORP	
MARSH & MCLENNAN COS	STAPLES INC	
MCDONALD'S CORP	STATE STREET CORP	
MCKESSON CORP	SUN MICROSYSTEMS INC	
MEDCO HEALTH SOLUTIONS INC	SUNOCO INC	
MEDTRONIC INC	SUNTRUST BANKS INC	
MERCK & CO*	SUPERVALU INC	
METLIFE INC	SYSCO CORP	
MICROSOFT CORP	TARGET CORP	
MONSANTO CO	TESORO CORP	

* The 9 companies have not filed yet when we reported the changes or have merged in the case of Merck and Wyeth.

About James F. Reda & Associates LLC

James F. Reda & Associates is a nationally recognized independent compensation and corporate governance consulting firm. Located in New York, New York (headquarters) with a satellite office in Atlanta, Georgia, our principal consultants have over 50 years of combined experience in compensation consulting. Our consultants are quoted frequently in leading media publications such as BusinessWeek, Forbes, Fortune, The New York Times, and The Wall Street Journal.

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

James Reda has authored two books on the subject of executive compensation and the role of the compensation committee, entitled *Pay to Win: How America's Successful Companies Pay Their Executives* (Harcourt: 2000), and *The Compensation Committee Handbook* (John Wiley: 2007), which is in its third edition. Mr. Reda served as a commissioner on the national panel "Executive Compensation and the Role of the Compensation Committee," assembled by the National Association of Corporate Directors. Mr. Reda is also a member of a task force created by pre-eminent trade group the National Association of Stock Plan Professionals in order to rationalize executive compensation.

Our Services Include:

- Advising compensation committees on all executive compensation matters
- Providing corporate governance advice with respect to executive and board compensation
- Benchmarking total compensation, including: base salary, short-term incentives, long-term incentives, executive benefits and perquisites
- Assisting with all aspects of short- and long-term incentive plan design, including: tax, accounting, and SEC implications of such arrangements
- Working with companies to determine competitive employment agreement plan designs
- Providing expert witness testimony, opinion, and litigation support
- Evaluating CEO, other senior executives and board
- Providing assumption analysis and expense calculation for FAS 123R purposes
- Designing executive ownership guidelines and capital accumulation programs
- Reviewing special situation incentives associated with IPOs, business units, partnerships, distressed companies, and mergers & acquisitions
- Designing deferred compensation, supplemental executive retirement programs (SERPs) and other executive perquisite and benefit programs
- Designing change-in-control and severance programs