

*Quick-Take Survey*

**2009 Long-Term Incentive Grant Practices**

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**EXEQUITY**

Independent Board and  
Management Advisors



### **The Quick Take**

- 2009 long-term incentive (LTI) values will likely fall substantially.
- Total 2009 LTI grant values across general industry (including both companies that do not change grant values and those that do) likely will show a fall of greater than 10%.
- For those changing their grant values, the median 2009 LTI grant value will fall 20% or more.

When survey data reporting 2009 LTI grant practices is compiled in a few months, it will show that 2009 LTI values generally fell substantially. Our Quick-Take Survey found that about 62% of all respondents intend to hold grant values steady, while for the other 38% of respondents who indicated that their values would change, the median change was a decrease of 20% in their LTI values. The greatest declines in grant values are among those companies that have yet to approve 2009 awards, so the continuing trend appears downward. This suggests that aggregate market data will show a decrease of more than 10% in the LTI values awarded in 2009.

## **Survey Participation**

Exequity solicited information pertaining to 2009 LTI grant practices from companies across all industry sectors. The survey was open from January 27, 2009 through February 3, 2009. Sixty companies responded, and their insights are summarized in this Quick-Take Survey report.

The survey respondents are characterized by size and industry as follows:

### **Revenues**

- 75<sup>th</sup> percentile: \$15,353,000,000
- Average: \$16,930,128,302
- Median: \$6,365,000,000
- 25<sup>th</sup> percentile: \$1,531,600,000

### **Industries**

Automobiles & Components	Media
Capital Goods	Pharmaceuticals & Biotechnology
Commercial Services & Supplies	Real Estate
Consumer Durables & Apparel	Retailing
Diversified Financials	Semiconductors & Semiconductor Equipment
Energy	Software & Services
Health Care Equipment & Services	Technology Hardware & Equipment
Household & Personal Products	Telecommunications Services
Insurance	Transportation
Materials	Utilities

### **Methodology**

We have presented the responses we received to the Quick-Take Survey questions based on the following cuts:

- All companies that responded – “All Cos”
- Status of Compensation Committee/Board approval:
  - Companies whose Compensation Committee/Board approved their 2009 LTI grant actions already – “CCs Yes”
  - Companies whose Compensation Committee/Board has not yet approved their 2009 LTI grant actions – “CCs Not Yet”

## **Observations**

- Median annual stock price performance:
  - 42% decline for all respondents
  - 40% decline for respondents whose Compensation Committees/Boards have approved action
  - 55% decline for respondents whose Compensation Committees/Boards have not yet approved action
- Percent of respondents intending to keep 2009 LTI grant values the **same** as 2008:
  - 62% of all respondents
  - 52% of respondents whose Compensation Committees/Boards have already approved action
  - 74% of respondents whose Compensation Committees/Boards have not approved action (which have not yet had the Compensation Committees/Boards weigh in on the value)
- Percent of respondents indicating that 2009 LTI grant values will **change**:
  - 38% of all respondents
  - 48% of respondents whose Compensation Committees/Board have already approved action
  - 26% of respondents whose Compensation Committees/Boards have not approved action
- **Median change** in 2009 LTI grant values indicated among companies responding that changes will occur:
  - 20% decline by all respondents
  - 20% decline by respondents whose Compensation Committees/Boards approved action
  - 30% decline by respondents whose Compensation Committees/Boards have not approved action (perhaps influenced by the timing of approval—since the market has continued to struggle and deteriorate, Compensation Committees are likely to be more compelled to reduce 2009 LTI award sizes more to reflect the worsening economic condition of those respondents)

## **Commentary**

Among all survey respondents, the median change in stock price over the past year was a drop of more than 40%. Interestingly, the decline in share value was more pronounced at the companies whose Compensation Committees/Board have not yet approved 2009 LTI actions than among organizations that already have secured award approval; median stock price declines at companies that have yet to garner Committee/Board endorsement was 55%, whereas the fall was 40% among companies whose 2009 LTI recommendations already have been sanctioned. It is possible that companies whose prices have fallen the most are struggling to develop an acceptable recommendation for 2009 LTI awards.

A majority (62%) of all companies reported that they intend to replicate the levels of 2008 grant values in 2009. But in instances when companies have had their actions approved by their Compensation Committee/Board, only 52% actually maintained grant value year-on-year. Where a change in LTI grant value is anticipated in 2009, the median expected change reported was a decrease of 20% in grant worth. Nearly half of the companies reporting a drop in LTI award value in 2009 expect to issue the same number or fewer share awards than last year.

Notwithstanding the fact of a 55% median drop in share price among respondents who have yet to approach their Compensation Committees for approval of 2009 LTI awards, nearly three-quarters expect to keep grant values at 2008 levels (though, whether these Compensation Committees will ultimately approve unchanged grant values remains to be seen). Of those that indicated that their 2009 LTI values would change, the median forecast suggests a decrease of 30% from last year. It appears that those companies that have not yet had formal Compensation Committee action on 2009 LTI awards are responding with deeper cuts, likely due to the continuing market turmoil.

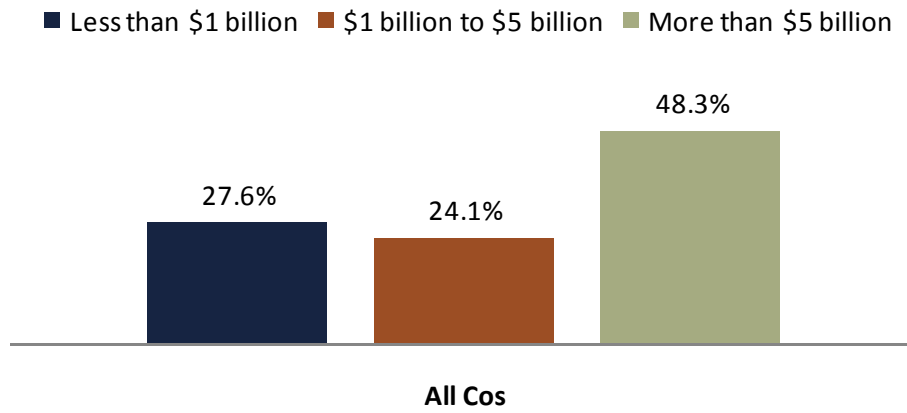
The reportedly significant and widespread deterioration in 2009 LTI grant values likely will materially affect LTI grant planning in 2010. Most companies formulate LTI grant guidelines by reference to benchmark practices, i.e., they size-recommended award levels each year at least in part based on comparison to the prevailing LTI levels in the external market. Since the observable contraction in LTI grant values will ripple through the market data that companies will use in 2010, we can expect it will influence award planning and grant recommendations in 2010 and beyond (unless companies focus on the number of shares delivered, as is happening at many companies in 2009).

Compounding the matter is the fact of depressed stock prices that characterize the equity markets generally, presenting companies with severe share constraints that will limit LTI award values until the macroeconomic environment improves, profit growth returns, share prices begin to recover, and companies warm to the notion of raising compensation levels once more. It is conceivable that improvement of this nature may be several years in the future.

**Responses to Questions**

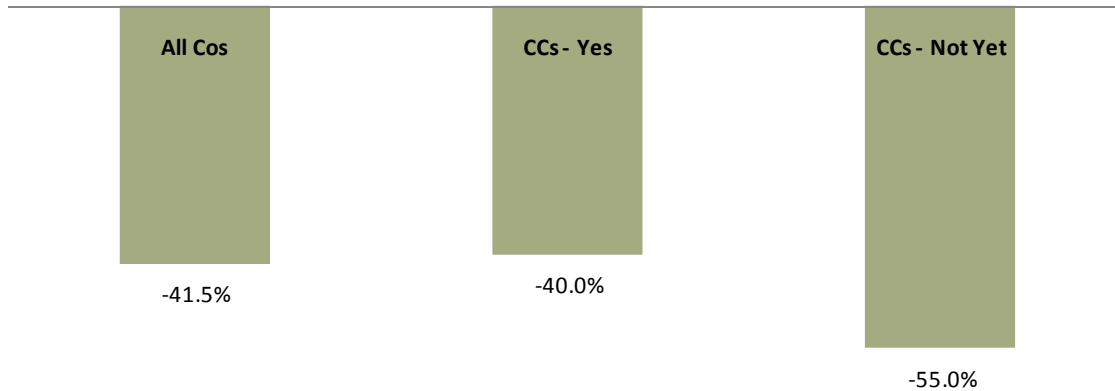
1. What was your company's market capitalization on 12/31/2008?

**Q1 Response: Market Cap**



2. What was your company's stock price performance during the past 12 months (as of 12/31/2008) (example: decreased 40%, increased 20%, etc.)?

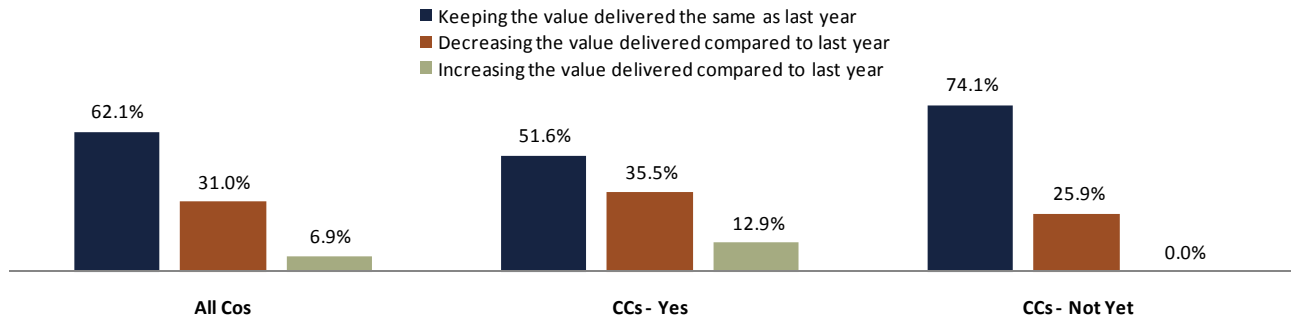
**Q2 Response: Median Stock Price Performance**



**Comment:** The median stock price performance for those companies whose Compensation Committees/Boards have not yet approved LTI grants may indicate that these companies are having difficulty in developing their 2009 LTI grant recommendations.

3. What is your company doing with its 2009 LTI/equity awards' grant value (Black-Scholes, binomial, economic) delivered for 2009?

### Q3 Response: Plans for 2009 LTI Grant Values

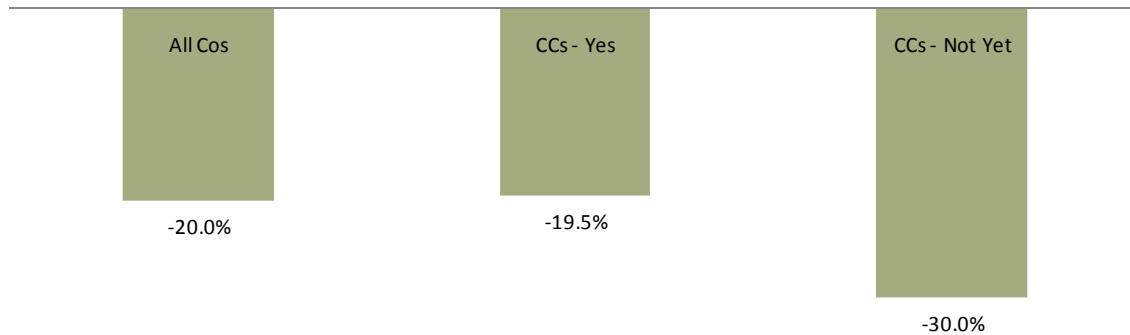


**Comment:** A significant number of companies have reduced LTI grant values year over year. However, fewer companies that have not yet secured Compensation Committee/Board approval for their 2009 LTI grant values indicated that they will be decreasing the value of their 2009 LTI grants.



4. If your response to Q3 (grant value) indicated that your company is increasing or decreasing the 2009 grant value, please indicate the anticipated percentage change in grant value (example: 20% increase, 20% decrease).

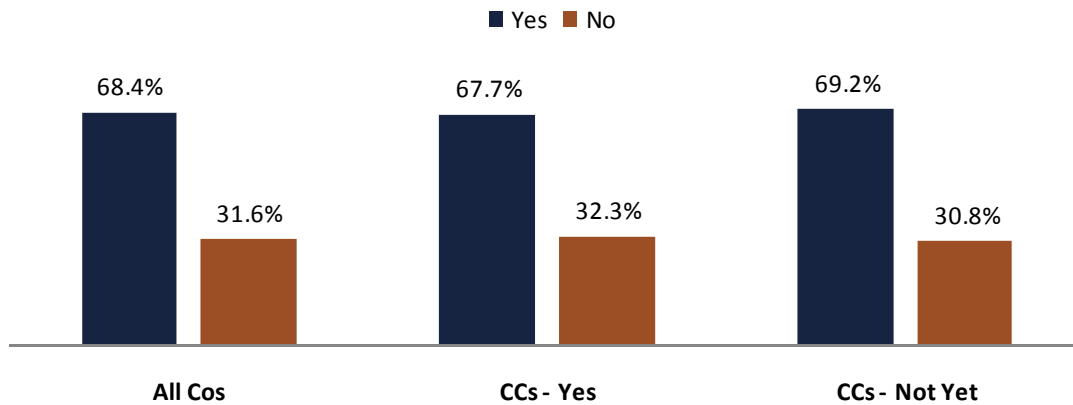
**Q4 Response: Median Change in 2009 LTI Grant Value**



**Comment:** Not surprisingly, reductions in grant values seem to be closely correlated with stock price declines (compared to responses in Q2) and seem to equate to about 50% of the stock price decline.

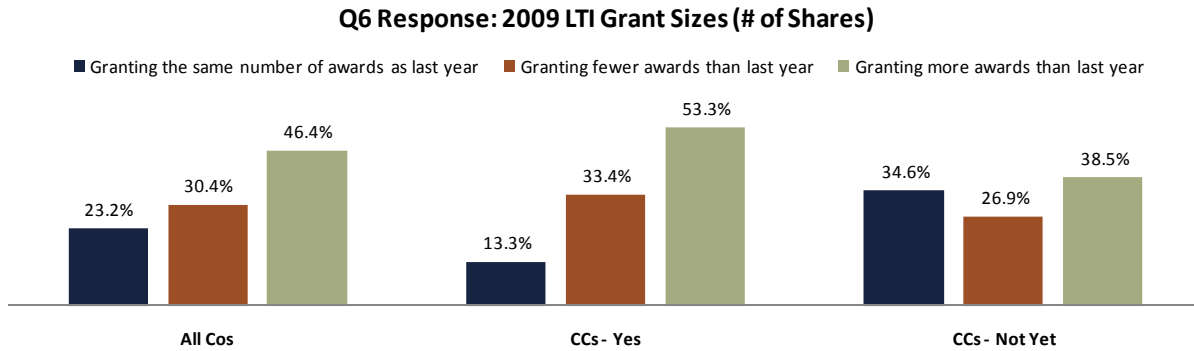
5. Is your company keeping the mix of LTI equity grants the same in 2009 as last year, i.e., is it granting the same type of equity awards in the same proportion as it did last year?

### Q5 Response: LTI Mix Same as Prior Year?



**Comment:** The vast majority of respondents are keeping their pay mix the same in 2009. That said, the year-over-year responses indicate that companies changing their pay mix continue to move away from time-based vested awards towards performance-based vested awards.

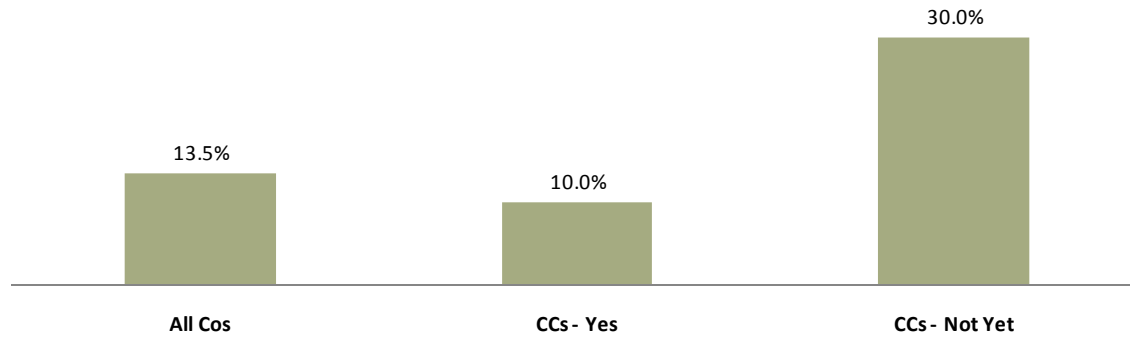
6. What is your company doing with respect to the size of its 2009 LTI equity grant sizes (number of shares granted) for 2009?



**Comment:** Even though a significant number of companies are granting more awards in 2009, we know that overall about 50% of companies are granting the same number or fewer shares. This taken with the median stock price decline of 40% indicates that values also will be declining.

7. If companies indicated that they were increasing or decreasing the number of shares granted in 2009, here is the anticipated percentage change in the number of shares:

**Q7 Response: Median Change in Number of Shares**



**Comment:** For companies that have not yet had LTIs approved for 2009, they are anticipating a 30% increase in shares. Combining a median stock price decline of 55% with a large majority indicating the same pay mix in 2009, one would expect that more than 25% of those companies will be delivering lower-valued grants in 2009.

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The proxy disclosure rules mandate comprehensive disclosure of payments that would have to be made to each Named Executive Officer upon a termination of employment prior to or after a change-in-control. The ProxEASE™ Parachute Modeler is the only Web-based modeler that automates the golden parachute excise tax calculation process. The tool applies some of the most complex calculations in a simple and intuitive way to determine whether any “golden parachute” excise tax would be due.

- Comprehensive, flexible, user-friendly tool in a question-and-answer format.
- Allows for all types of compensation vehicles to be included in the modeling.
- Allows for the use of reasonable compensation positions to reduce excise taxes potentially owed.
- Most cost-effective method for completing the calculations (“top 5” parachute calculations can be run for \$5,500 total, versus more typical fees of \$20,000–\$30,000).

### WEB-BASED EXCEL-LIKE DATA INPUT

Exequity - ProxEASE WebTool - Microsoft Internet Explorer

Address: http://localhost/members/spreadsheet.aspx?UserFormID=4

**EXEQUITY ProxEASE™ Webtool - Patent Pending**

280G : Change in Control - Test 280G [Show Gridlines] [Save] [Download] [Help, Contact Us]

**Questions About Prior Taxable Compensation**

These questions derive the safe harbor amount that can be paid under IRC Section 280G without triggering excise tax liability. You will need W-2 information for each individual's prior five tax years to complete this section.

[Watch video tutorial for this page.](#)

	8. 2001	8. 2002	8. 2003	8. 2004	8. 2005	9a. Date of hire if after 1/1/2001. (M/D/YYYY)	9b. Recurring	9c. Non-Recurring
Bill	1,600,000	1,500,000	1,600,000	1,500,000	1,600,000			
Will	700,000	650,000	750,000	650,000	750,000			
Jill			650,000	750,000	650,000	4/15/2003	430,000	60,000

8. Please enter the individual's taxable compensation for the prior 5 years identified (i.e., Box 1 of the W-2)? If the individual was not employed at any point during a specified year, please leave the field blank.

9. If the individual was hired after January 1, 2001, please enter the following:

9a. Date of hire

9b. The portion of the W-2 number for the year of hire that reflects recurring payments for the initial calendar year of employment, e.g., base salary (Click here for a calculate to assist in finding the recurring payments.)

9c. The portion of the W-2 number for the year of hire that reflects nonrecurring payments for the initial calendar year of employment, e.g., sign-on bonus and/or relocation expenses. (Click here for a calculate to assist in finding the recurring payments.)

Note, if the individual was not employed prior to 12/31/2005, you should complete columns 9a, 9b, and 9c and leave all other columns blank. The model assumes that the individual was employed by the Company only during the period from the start date through December 31, 2006. If any of the individuals

General/Assumptions | **Prior W-2s** | Severance | Vesting of Unvested Awards | Award Forfeiture due to Restrictive Covenant Violation | Tim

### EXCEL OUTPUT

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	<b>Acme Corporation</b>												
2	<b>Actual Payments Summary</b>												
3		<b>Name</b>	<b>Severance</b>	<b>Annual Bonus</b>	<b>Time Vested S/O Spread Value</b>	<b>Time Vested RS/RSU Value</b>	<b>Time Vested Cash Value</b>	<b>Performance Vested S/O Spread Value</b>	<b>Performance Vested RS/RSU Value</b>	<b>Performance Vested Cash Value</b>	<b>Welfare Benefit Value</b>	<b>Incremental Pension*</b>	<b>Incr Reti Medi Ben</b>
4													
5		Davis	\$2,358,130	\$393,022	\$3,546,853	\$5,320,279	\$0	\$0	\$7,093,705	\$0	\$44,282	\$153,185	\$87,1
6		Johnson	\$1,534,909	\$255,818	\$2,164,015	\$3,246,023	\$0	\$0	\$4,328,031	\$0	\$43,582	\$75,283	\$0
7		Smith	\$1,056,202	\$176,034	\$1,343,475	\$2,015,213	\$300,000	\$0	\$2,686,951	\$0	\$45,862	\$943,354	\$0
8		Doe	\$935,100	\$155,830	\$1,089,853	\$1,634,780	\$0	\$0	\$2,179,707	\$0	\$41,358	\$34,946	\$0
9		Jones	\$732,198	\$122,033	\$979,289	\$1,468,933	\$0	\$0	\$1,958,577	\$0	\$40,947	\$51,039	\$0
10													

Payments / Parachutes / Excise Tax / Excise Treatment 1 / Excise Treatment 2 / General / W-2 / Severance / Time

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If you have any questions about this **Quick-Take Survey**, please contact **Edward Hauder** (847-996-3990 or [Edward.Hauder@exqty.com](mailto:Edward.Hauder@exqty.com)) or any of the following:

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