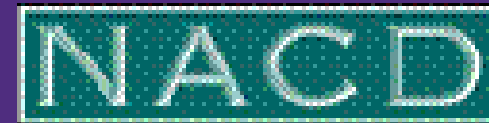




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Presented by
Henry Oehmann
Director National Executive Compensation Services
Grant Thornton
henry.oehmann@gt.com
919.881.2773



What every compensation committee should know about executive compensation

- Three sections to today's agenda:
 - The attorney's point of view - Jamie Hinkle;
 - The compensation consultant's perspective – Henry Oehmann; and
 - The voice of the director – John Miller-Paragon Commercial Bank



Selected Discussion Topics

- Documentation: meeting notes and minutes;
- Reports submitted by consultants;
- Compensation discussion and analysis;
- Use of peer groups;
- Retention strategies;
- Ownership guidelines;
- Stock-based compensation plans;
- Risks and incentive plans;
- Long-term incentives
- Employment agreements
- CIC benefits and planning
- Annual compensation planning
- Directors' compensation
- Use of third-party advisers
- Public company vs private company issues
- Strategic planning and executive compensation
- Succession planning;

Overview of Compensation Objectives

- Three key objectives of your compensation program are the following:
 - Attract and hire new executive skills
 - Retain talent
 - Motivate behavior and performance

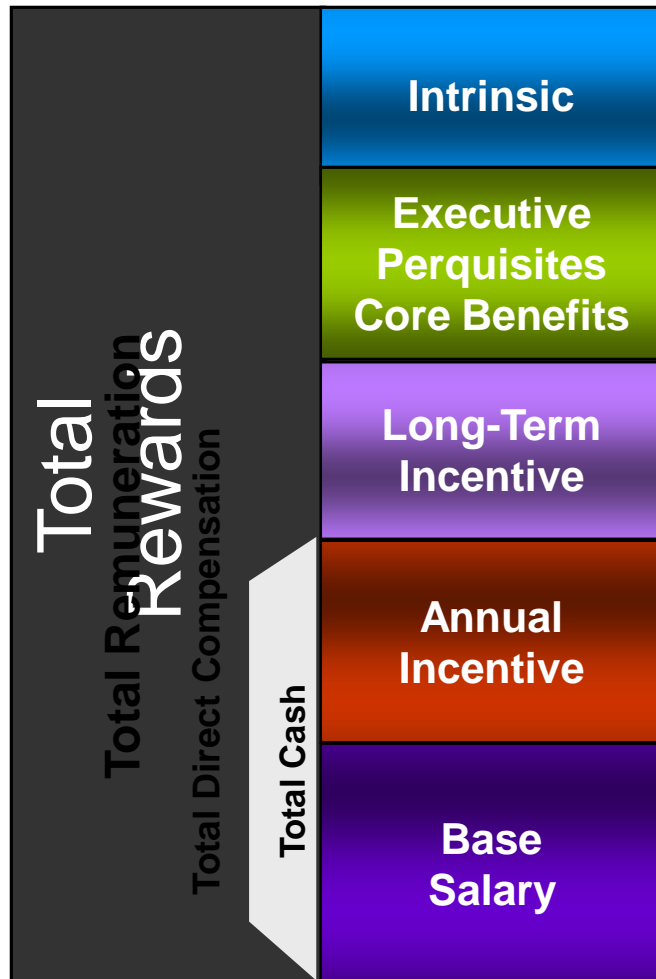


The compensation consultant's perspective

- Start with the compensation philosophy
- Discuss and utilize each of the pay elements
- Link pay to company performance
- Use pay to support the major planning events: succession, strategic and crisis plans.



Major Elements of Compensation



- Work environment
- Geographic location

- Supplemental executive perquisites, retirement benefits
- Typically not at-risk based on performance
- Basic benefits competitively targeted against the market

- Total direct compensation
- Long-term incentive opportunity, typically covers 3 – 5 year period
- Long-term performance measures reviewed and approved periodically

- Total cash compensation, calibrated to target market
- Pay at-risk for performance
- Short-term (annual) performance measures reviewed and approved annually

- Base salary (not at-risk for performance)
- Calibrated to target market based on job content and scope

Both decision processes and competitiveness of these elements must be consistent with applicable tax provisions

Start with the compensation philosophy

- Balance executive needs with shareholder expectations;
 - Rewarding performance: What is a fair share of profits for executives?
 - Equity pay for executives can be dilutive for shareholders: Where's the balance?
- Set a comparable position within the market;
 - Should the 75th percentile be a default?
 - Who should be compared?

Start with the compensation philosophy

- Assess role of each pay element and trade-offs;
 - Base salary anchors the program;
 - How should cash incentives and stock add to the mix?
 - Retirement packages?
 - Termination and CIC benefits?
 - Perquisites and the public.
- Address the link between pay and performance.



Start with the compensation philosophy

- Address risk and executive incentives.
 - TARP has taught us that risk matters;
 - Boards need to understand pay, leverage, and the impact incentives play in risk management.
- End analysis with a total compensation comparison;
 - Prepare a tally sheet to see how each element contributes to the total pay package.
 - Run several scenarios to get the full picture.

Discuss the role and mix for each of the pay elements

- Salary - attract and retain
- Incentives - leverage performance
- Risk: How much incentive pay is reasonable?
 - Bonus at target-100% or 50% times base?
 - Stock options vs. restricted stock;
 - SERPS;
 - Change-in-control pay.



Benchmarking and peer group comparisons

- What is an appropriate peer group?
- Who should decide on the final peer group?
- How should the peer group data be used?
 - Compensation comparisons;
 - Performance assessments;
- Should more than one peer group be used?
 - Regional vs. national vs. international
 - Performance vs. compensation

Compensation consultants

- What is the role of the outside compensation consultant?
- Who should choose the consultant?
- What are selection criteria?
- How should their role be communicated?



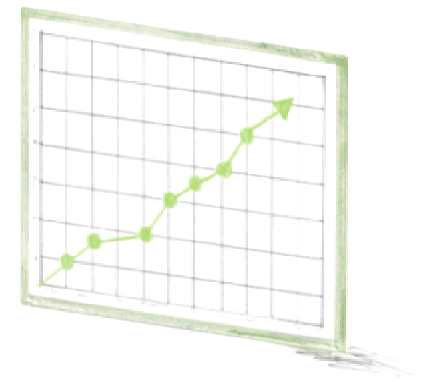
Stock-based compensation

- Which type to use?
 - Stock options;
 - Restricted stock;
 - Phantom stock.
- How to add stock compensation to mix;
 - Annual grants
 - Vesting requirements
 - Ownership guidelines.
- Accounting, tax, securities law issues.



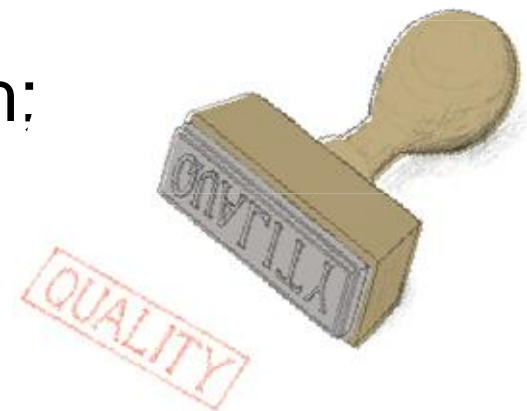
Link pay to company performance

- Pay and performance decisions can be planned or discretionary;
 - Planned: Goals set in advance and pay is formula based;
 - Discretionary: Decisions are based on a retrospective view with wide latitude.
- Most plans permit both approaches;
- IRC §162(m) limits discretion to qualify.



Performance metrics and the role of incentive pay

- Key financial measures include “R’s”:
 - ROA, ROI, ROE, ROS, RONA, ROIC, etc.
 - Earnings drives the numbers: EPS, earnings growth, EBIT, EBITDA, EVA, etc.
 - Non-financial measures are:
 - Balanced score card approach;
 - Milestone achievement; and
 - Industry benchmarks



Performance measures in troubling financial times

- How flexible are your decisions on performance targets and expectations?
 - A goal is a goal: no mulligan's!
 - We need to respond to real-time numbers.
- Rebalance measures to be more realistic with the current financial projections;
 - This year survival may be a good goal;
 - Look beyond the short-term horizon.



Succession, strategic and crisis plans

- Three key events should be a focus for the Board;
- Each plan can be linked to the executive pay package;
- One size will not fit all;
- Do the math:
 - How much will the CIC cost?



Compensation Strategies for a Business Planning Event

	Business Event Plan		
Compensation Objective or Element	Crisis Plan	Strategic Plan	Succession Plan
Attract	1	3	2
Retain	3	2	1
Motivate	2	1	3
Base salary	H	L	M
Bonus	H	M	H
LTI	M	H	H
Equity	M	H	H
Retirement	L	M	H
Change in Control	M	H	L
Severance	H	L	M
Clawback	L	H	M
Retention Bonus	H	L	M

Ranking: 1,2, or 3
 Priority: H-high; M- medium; L-low.

Major event planning

- The plan is developed independently of the compensation program;
- Compensation should support each of the plans:
 - Strategic direction and pay for performance;
 - Succession planning and promotion and retention;
 - Crisis plans:
 - Attract key talent for a turnaround
 - Retention strategies to hold talent on board.

Summary comments

- Begin with the end in mind: pay philosophy drives pay decisions.
- Take a total compensation view; not a piece-meal element-by-element approach;
 - The “Grasso” lesson
- Link pay and performance;
- Do a compensation stress-test;
 - Use tally sheets
 - Run multiple scenarios



Questions addressed at the conclusion

