

Private Briefing on Executive Compensation and Benefits

Prepared for

The CEO Group



Mezrah Consulting

&

The Poe Group

October 2008

Asset or Liability?

Asset

- **Makes a positive contribution**
- **Thinks**
- **Shows up**
- **Dependable**
- **Trustworthy**
- **Strong work ethic**

Liability

- **Adds little value**
- **“Flat liner”**
- **Talks about weekends and is often sick**
- **Can’t handoff projects**
- **5:01er**

***Paying People More Money Doesn't
Make Them Any Smarter***

Agenda for Discussion

- I. Why Attract and Retain Key Employees?**
- II. Employer Mind Set Pitfalls**
- III. Executive Compensation**
 - 1. Hot Topics**
 - 2. Pay Component Mix**
 - 3. Key Elements of Executive Pay**
- IV. Executive Benefits**
 - 1. What is Everyone Doing?**
 - 2. What are Key Employees looking for?**
 - 3. Plan Design Options**
 - 4. Plan Structure**
 - 5. Plan Funding Options**
 - 6. Trends in Executive Benefits**
- V. Pay as a Communication Tool**

Why Attract and Retain Key Employees?

- **Provide stability to your organization**
- **Maintain profitability and growth**
- **Business Continuity**
 - **Allows an owner freedom to do other things in life**
 - **Provides a needed transition plan for the business**
- **Needed support and infrastructure for next generation**
- **To remain competitive**
- **Cost associated with losing a key employee**
 - **Lost revenue, efficiency, intellectual capital training, cost of search**
- **Because it's the smart thing to do**

Employer Mind Set Pitfalls

- **My key employees will never leave**
- **My key employees have no other place to go**
- **My key employees are lucky to even have a job**
- **My key employees are all well paid**
- **My key employees would never search for other opportunity**
- **There isn't another business like ours in the area**

The goal is to create incentives so that if any of the above do not become a reality the employee is leaving a lot on the table

What are Key Employees Looking For?

- **Stability**
- **Growth**
 - Corporate
 - Individual
- **Opportunity to continue to learn**
- **They want to work with the best**
- **Security**
- **Long Term Compensation and Benefits**
 - Retirement Plans
 - Incentive Plans
- **Praise and Recognition**

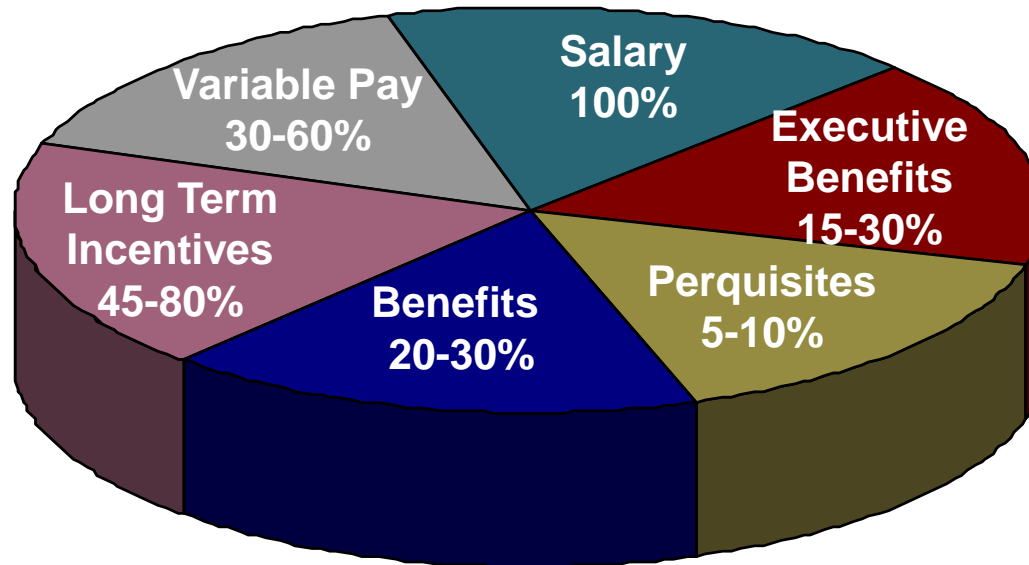
Hot Executive Compensation Issues

- **Say on Pay legislation**
- **Corporate Governance**
- **Post Separation Pay**
- **Change in Control Pay**
- **Pay for Performance**
- **Benchmarking and Setting Pay**
- **SEC Disclosure Rules**
- **Consultant Independence**

Notes: Partially derived from Pearl Meyer publication

Components of Executive Compensation

Typical Executive Compensation Package



Each category is a percentage of salary

Total Compensation Package ranges from 215% to 310% of salary

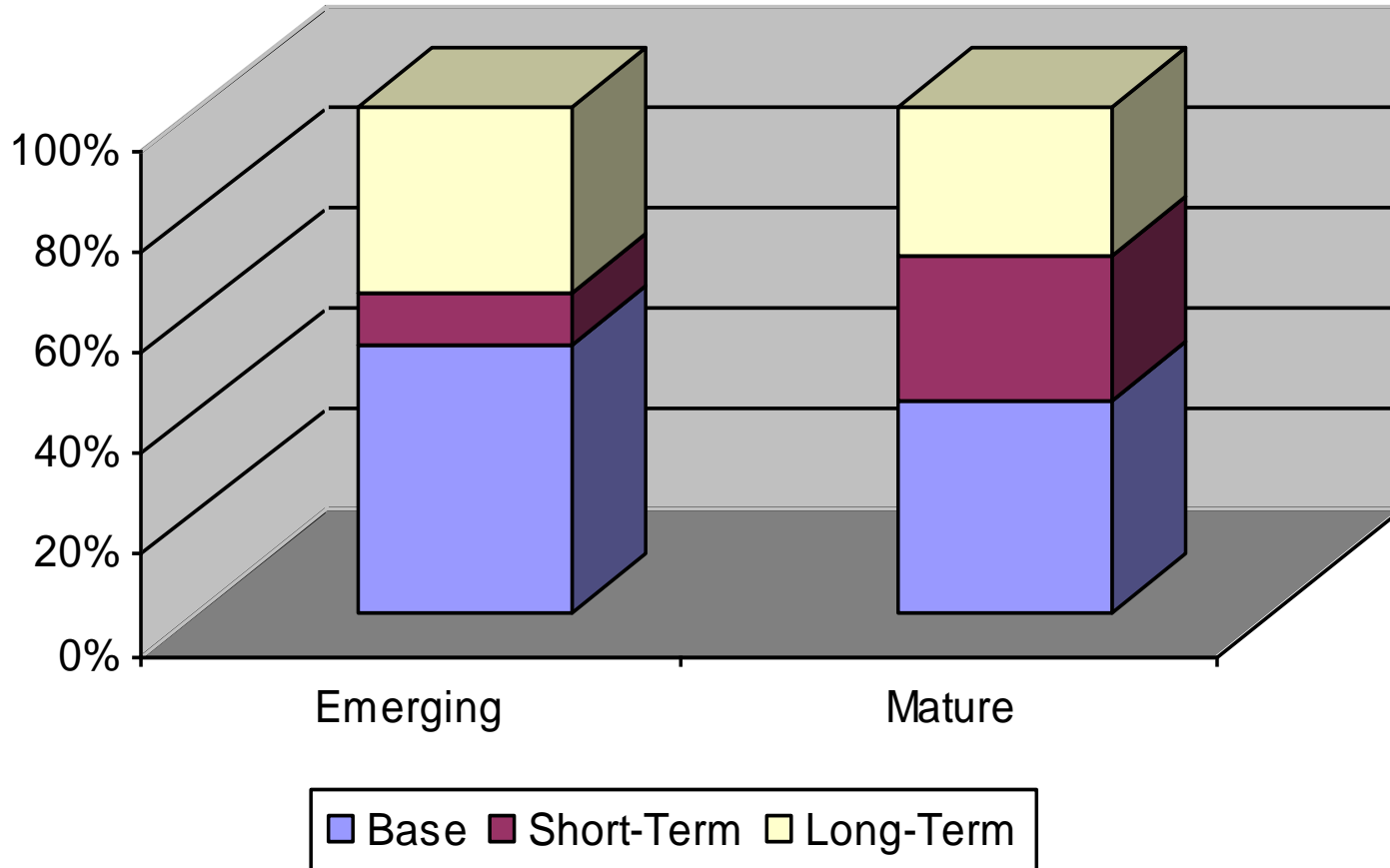


Executive Compensation

Pay Component Mix

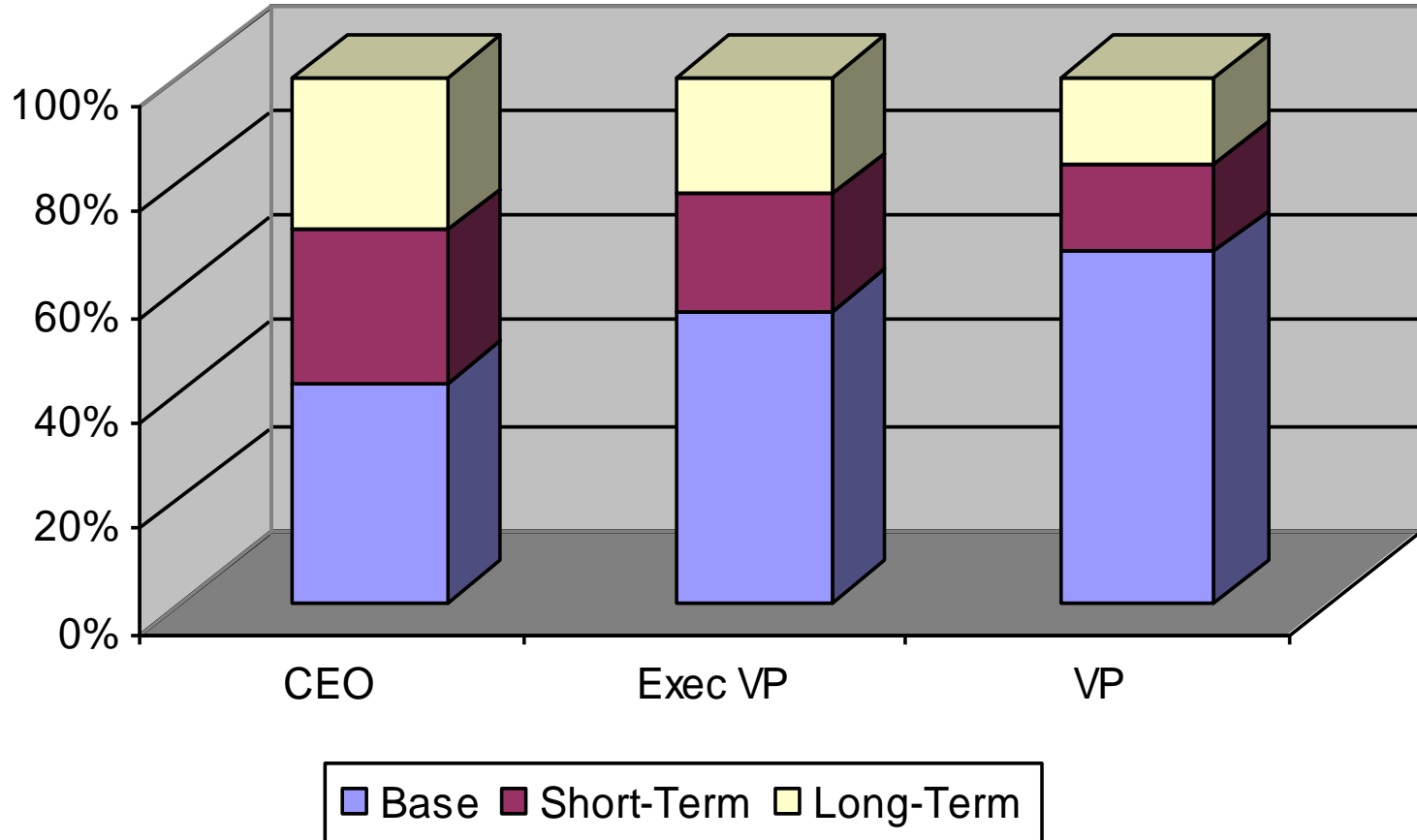
- **The component pay mix is determined by many variables**
 - **Company lifecycle**
 - **Industry / competition**
 - **Size of the company**
 - **Executive level**
 - **Company strategy and culture**
- **Structure of the mix is a major influence on executive behavior and corporate culture**
- **Other influences**
 - **Governmental legislation**
 - **Board of Directors / Capital Partners**

Company Lifecycle Mix Differences



Notes: Chart shows relative comparison, not absolute.
Data for chart derived from Mercer 2008 Executive Survey.

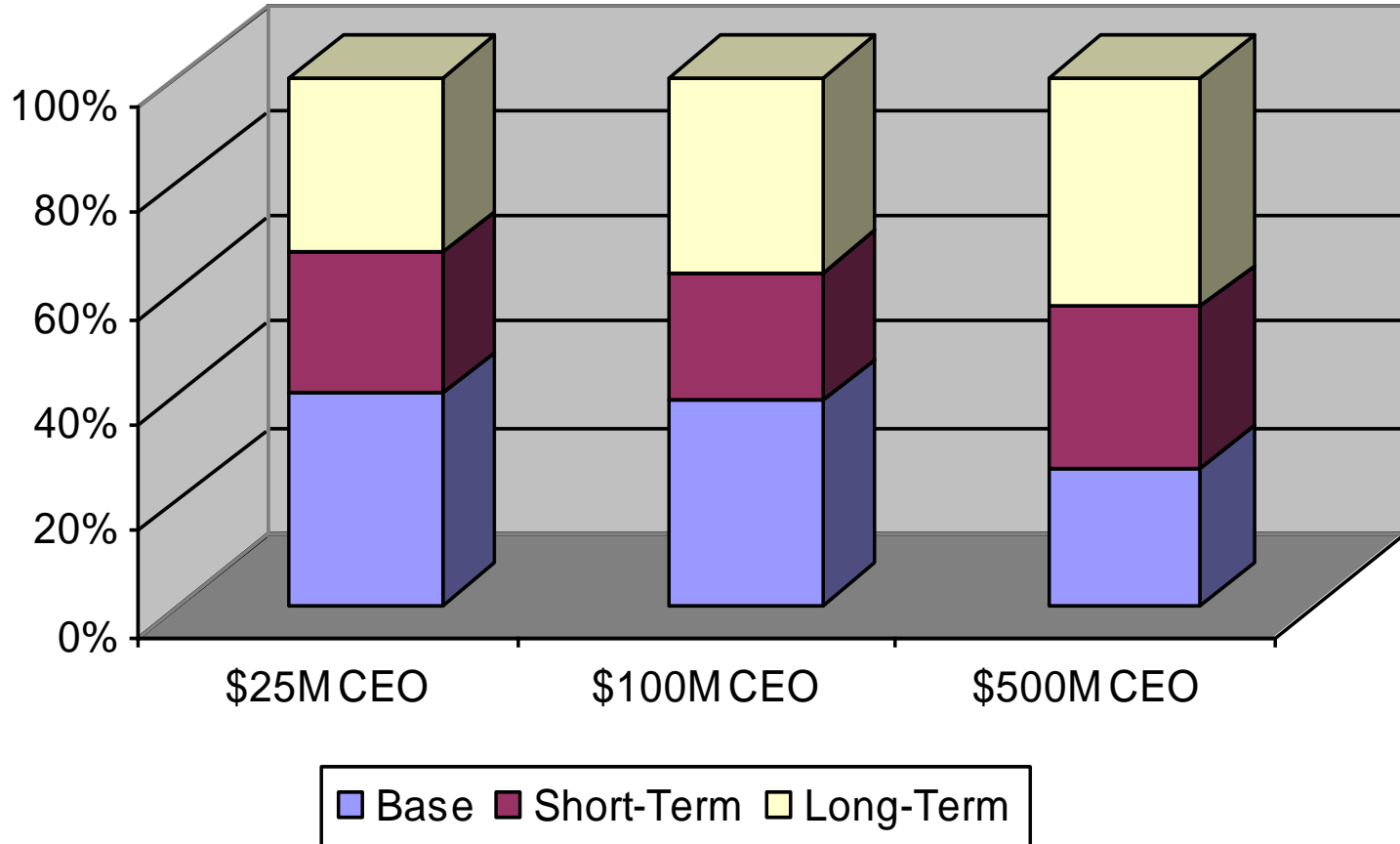
Position Mix Differences



Notes: Chart shows relative comparison, not absolute.
Data for chart derived from Mercer 2008 Executive Survey.



Company Size Mix Differences



Notes: Chart shows relative comparison, not absolute.
Data for chart derived from Mercer 2008 Executive Survey.



Short-Term Fixed Pay - Salary

- **Foundation of most reward systems**
 - **Provided when other components may not be employed in the reward system**
 - **Other components often calculated as % of salary**
- **Cannot pay significantly under market and risk losing competitiveness**
- **External benchmarking critical**
- **Paying above market should be justified by above market performance**
- **Other factors sometimes in play**

Short-Term Variable Pay - Bonus

- **Best tool to pay for performance and link to business results – provides a “piece of the action”**
- **Helps communicate most important drivers for the business**
- **Short-term nature of the pay component allows adjustment as business conditions change**
- **However, incentive plans should not radically change year-to-year**
- **Designs should be customized for business lifecycle**
 - **Measurement selection and weights**
 - **Leverage factor**
 - **Thresholds and maximums**
 - **Absolute vs. relative measurement**

Long-Term Pay

- Encourages true ownership motivation and behavior
- Reward can take the form of equity or cash
- Option plans have term of 5 – 10 years
- Performance plans typically measured 3 – 5 years
- Retention an important outcome of design
- Design considerations are many – same as in bonuses plus -
 - Appropriate level for participation
 - Vesting period
 - Vesting cycles
 - New participant, termination, CIC provisions

Executive Benefits

What is Everyone Doing in Executive Benefits?

- **Supplemental Executive Retirement Plans (either defined benefit or defined contribution)**
- **Long Term Incentive Plans (Deferred Bonus Plans)**
- **Leverage Bonus Plans**
- **Deferred Compensation Plans**
- **Executive Life Insurance Plans**
- **Executive Disability Income Plans**
- **Executive Long Term Care Plans**

Plan Design Options

■ Company Paid Benefits

- Supplemental Executive Retirement Plans
- Long Term Incentive Plan; Phantom Stock Plan
- Executive Life Insurance, DI and LTC
- Executive Financial Planning

■ Voluntary Benefits

- Deferred Compensation; fixed or variable rate plan
- Executive Disability Income; incentive compensation and equity
- Executive Long Term Care

■ Other Considerations

- Eligible group, years of service, benefit amount, vesting, retirement age, non-compete provisions and benefits based on corporate performance

Plan Structure

Company Owned

- Funding is not deductible; asset
- Control over assets
- Benefits secure from change in control but not corporate insolvency
- Liability on the Balance Sheet
- Can be structure with little to no P&L impact
- Benefits grow tax deferred
- Benefits distributions are taxable
- Plan administration, accounting and recordkeeping
- Legislative issues - 409A

Individually Owned

- Funding is deductible; expense
- Taxation today (company can gross up for taxes)
- Complete plan security
- Access to plan benefits can be controlled by the company
- Earnings can be structured to be tax free
- Benefit distributions can be structured to be tax free
- No plan administration, accounting or recordkeeping
- No compliance or legislative issues

The ideal plan design will depend on a company's overall planning objectives and financial sensitivities

Plan Funding Options

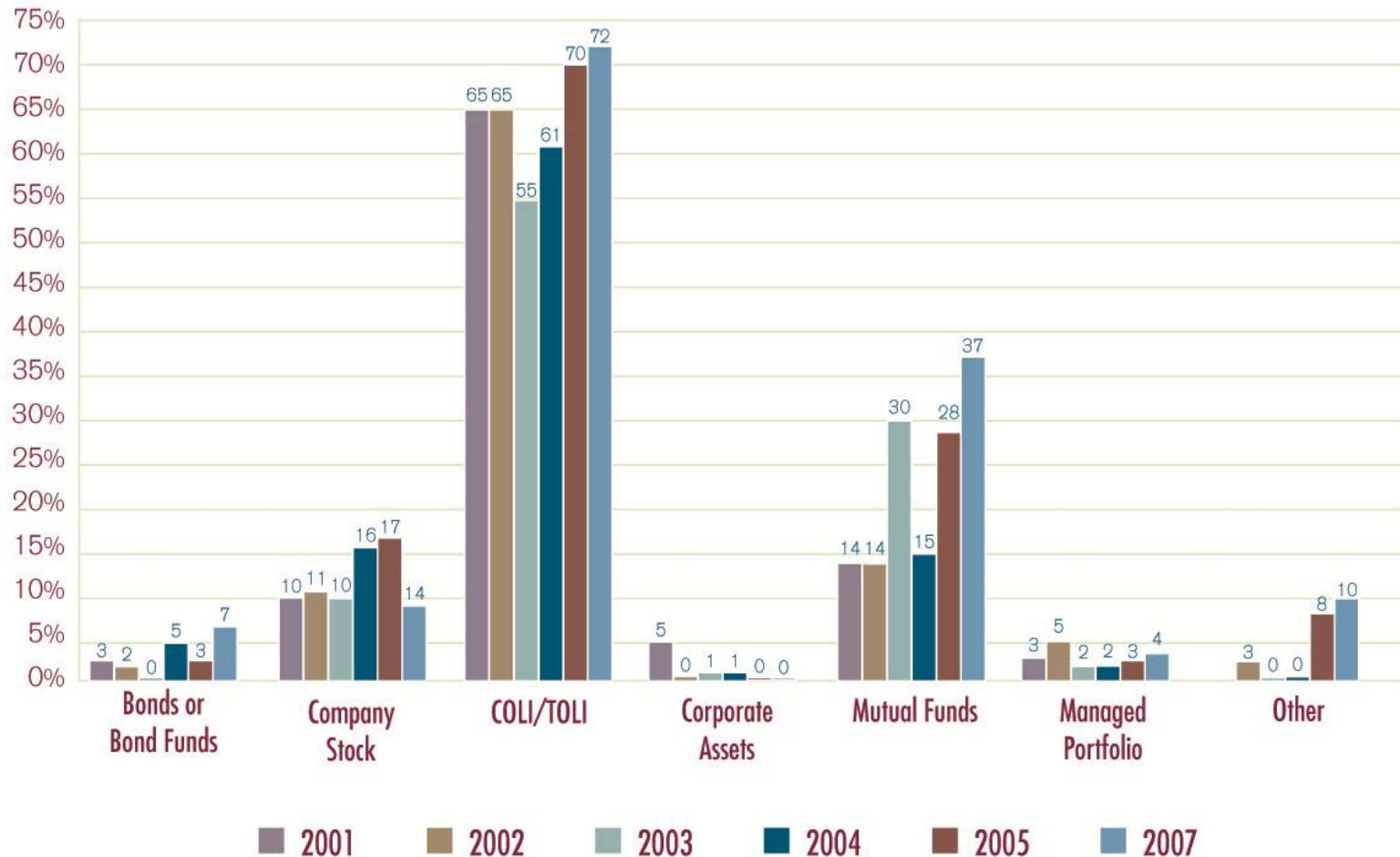
- **Trust or no trust?**
 - If corporate owned, trust assets can be transparent for financial purposes
 - Trust can hold a variety of assets including taxable securities, annuities, corporate owned life insurance and real estate

- **Investment selection**
 - Return on Investment
 - Risk
 - Taxability (Cost)
 - Liquidity

- **Benefit Payments – corporate cash or directly from trust assets or investments**

Plan Funding Options

TYPES OF NQDC PLAN FUNDING

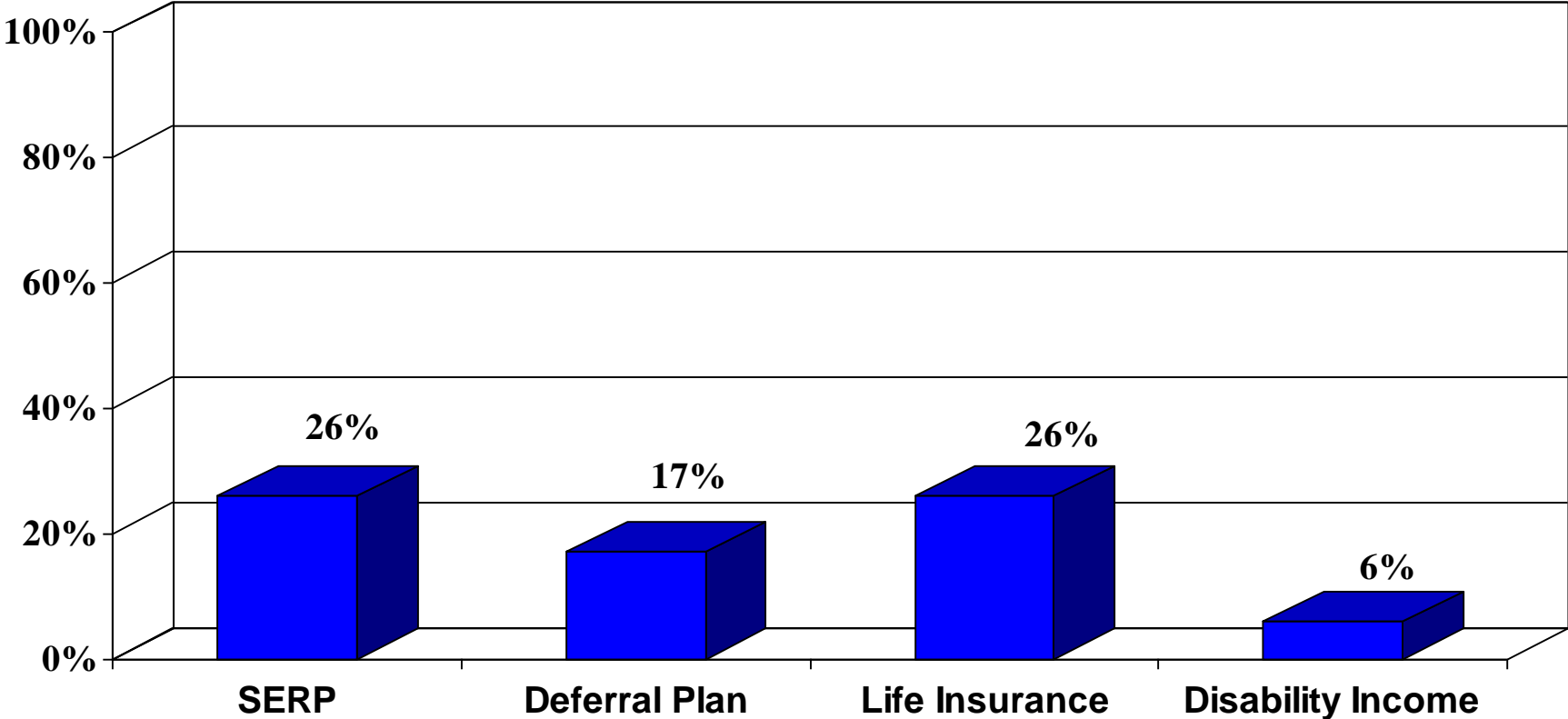


Trends In Executive Benefits

- **Performance Based Plans (e.g. sales, ROE, ROA, gross income)**
- **Defined Contribution Plans as opposed to Defined Benefit**
- **Providing benefits to middle management as well as executives**
- **Providing long term incentives to family members**
- **Equity emulation as opposed to giving real equity**
- **Deferred bonus plans**
- **Executive Long Term Care**
- **Executive Financial Planning**

Executive Benefits Survey

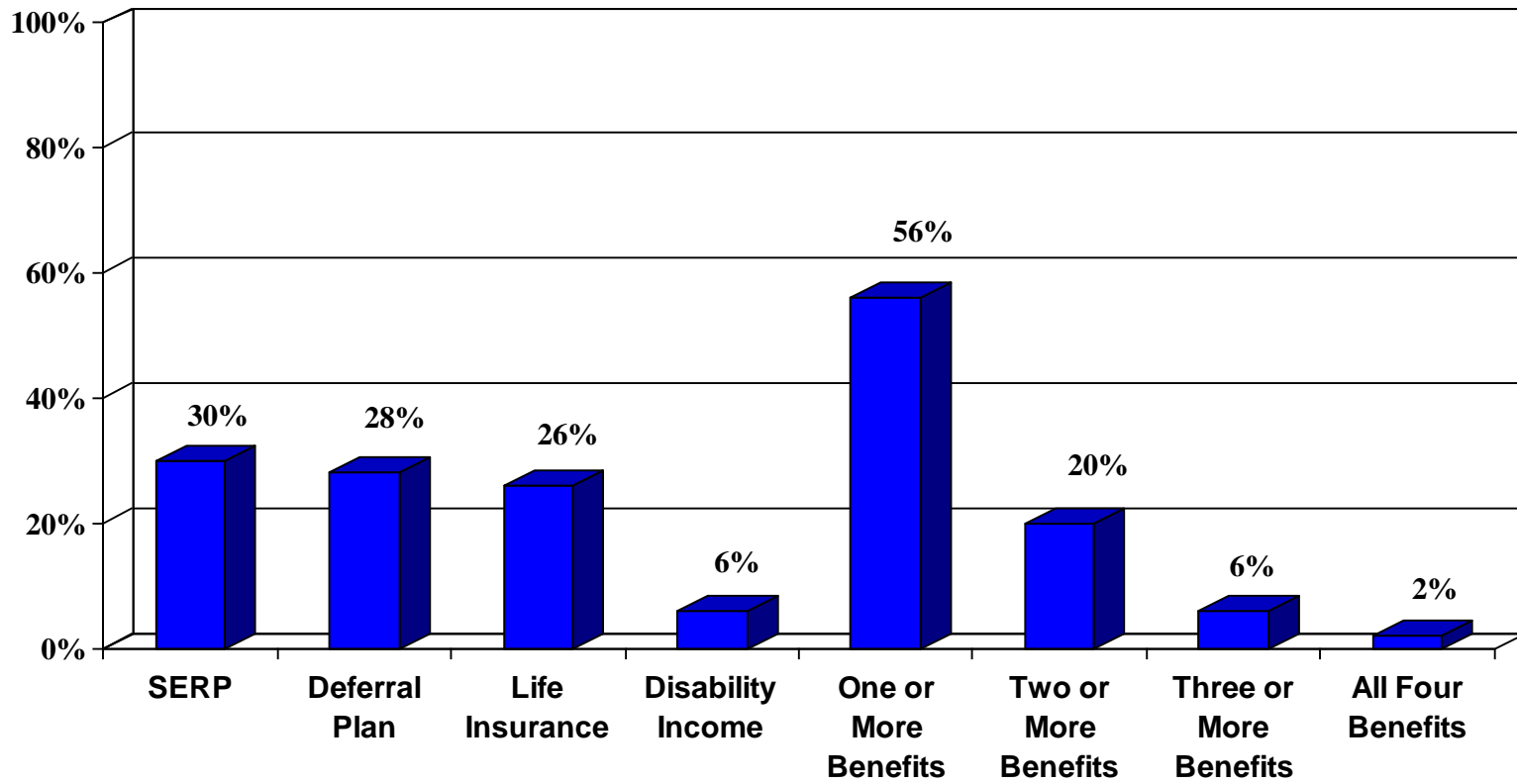
**% of Small Tampa Bay Public Companies
Providing Benefits***



* Companies with less than \$500 million in revenue

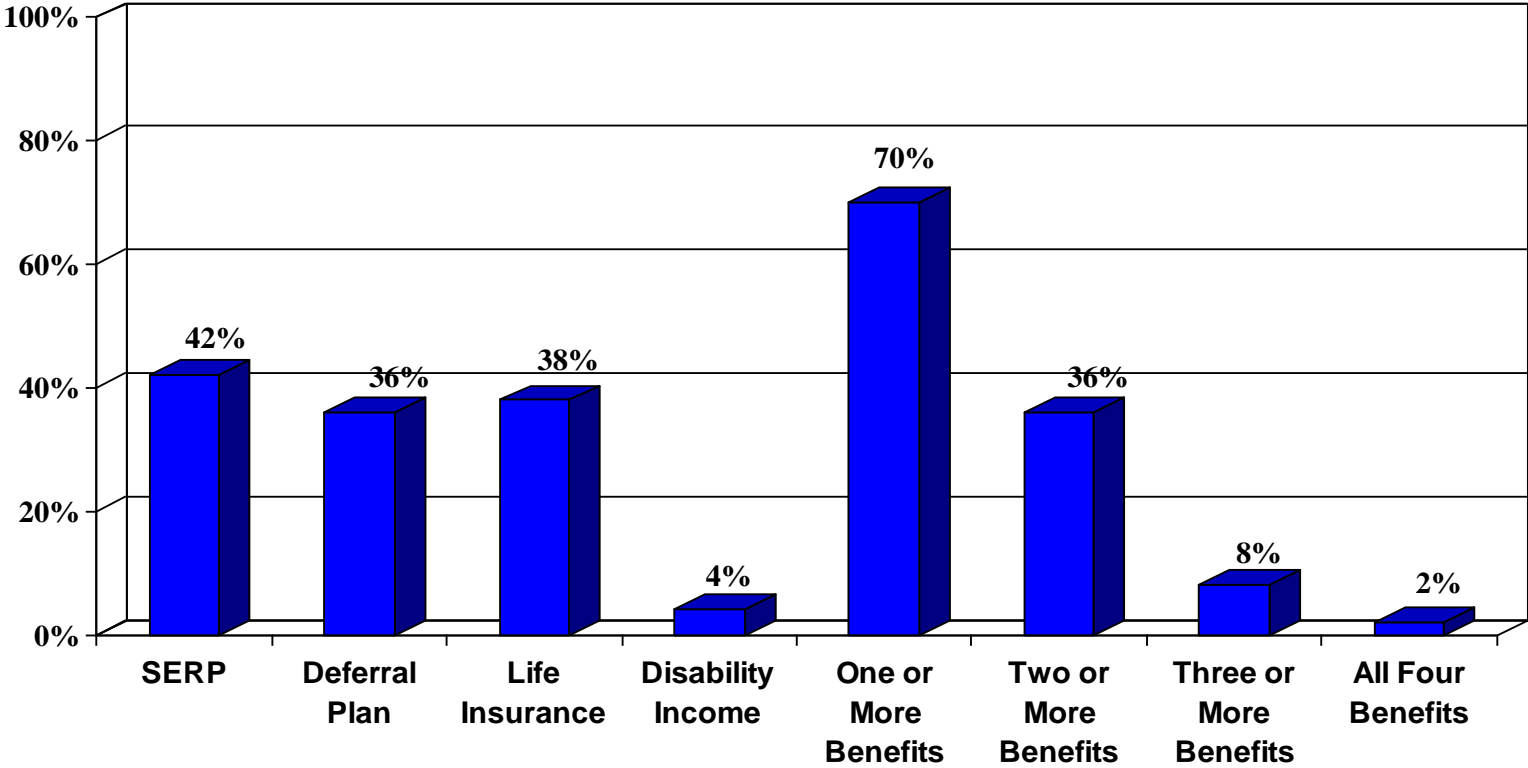
Executive Benefits Survey

% of Tampa Bay Companies Providing Benefits



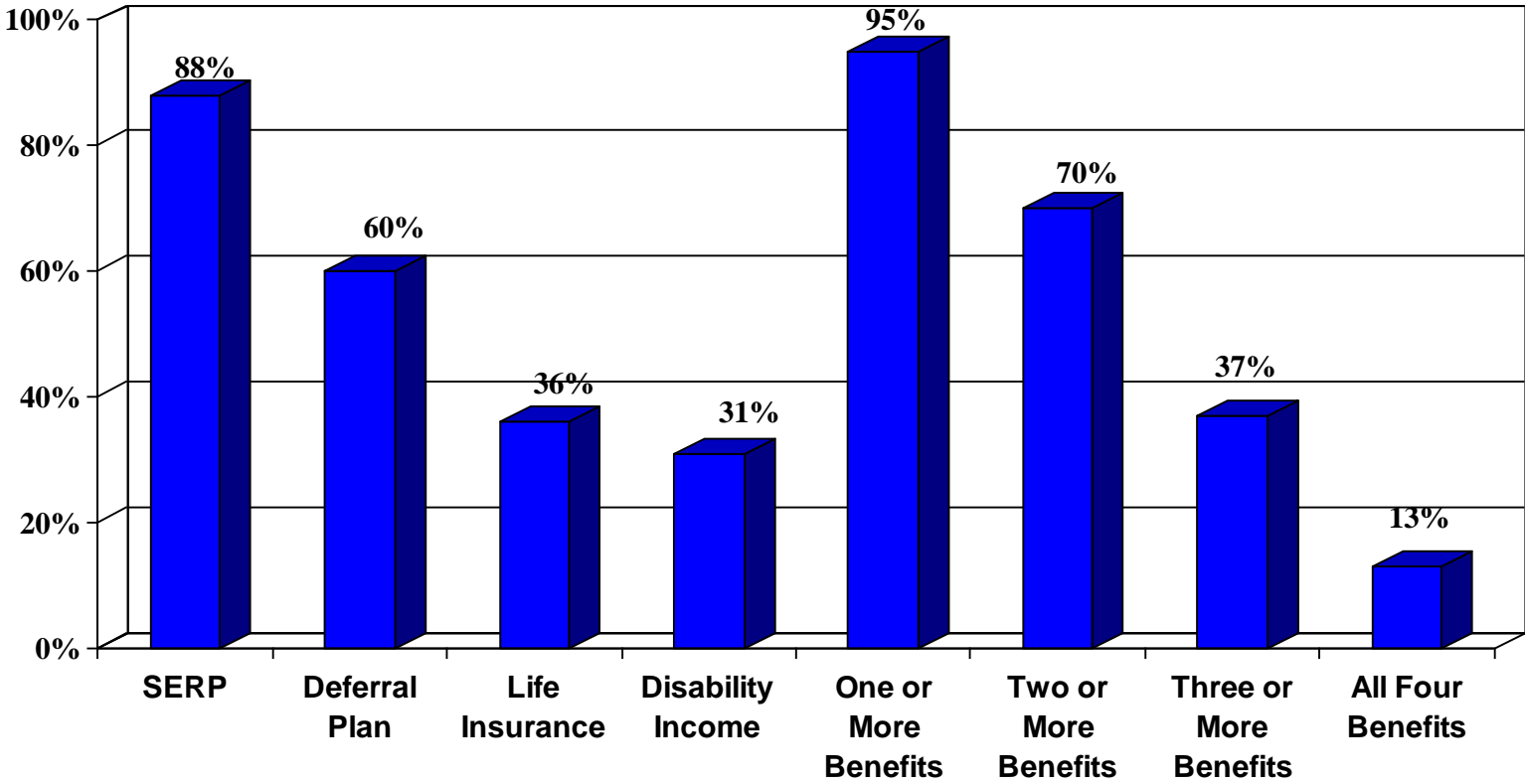
Executive Benefits Survey

% of Florida Companies Providing Benefits



Executive Benefits Survey

% of Large National Public Companies Providing Benefits



Source: MullinTBG 2007 survey of Fortune 1000 companies

Compensation and Benefits as a Communication Tool

- **Pay systems communicate a company's business strategy and values**
 - Fixed pay vs. variable pay
 - Short-term vs. long-term
 - Performance based vs. non-performance based
- **How you communicate pay and manage the process can be more important than actual pay levels**
 - Written strategy vs. implied
 - Openness of process vs. secretive decisions
 - Documentation vs. trust me
 - Discretion in awards vs. goals and formulas
- **Communication and involvement with Directors creates mutual understanding**

Private Briefing on Executive Compensation and Benefits

Prepared for

The CEO Group



Mezrah Consulting

&

The Poe Group

October 2008