



# TRENDS AND ISSUES REPORT

## The 2008 “Early 50 Filers”



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## Executive Summary

### About the "Early 50 Filers" Study

Pearl Meyer & Partners is pleased to present our "**Early 50 Filers**" study, which provides the results of our in-depth analysis of the executive compensation disclosures of 50 companies that filed proxy statements early in 2008.

Our "**Early 50 Filers**" study is the second of two studies conducted by Pearl Meyer & Partners in 2008 on executive compensation disclosures.

- The results of our first study, "**Proxies that Make the Grade**," reflected 124 companies' views on executive pay disclosures and the Compensation Discussion & Analysis (CD&A) writing process.
- A copy of that report can be downloaded at [www.pearlmeyer.com](http://www.pearlmeyer.com).

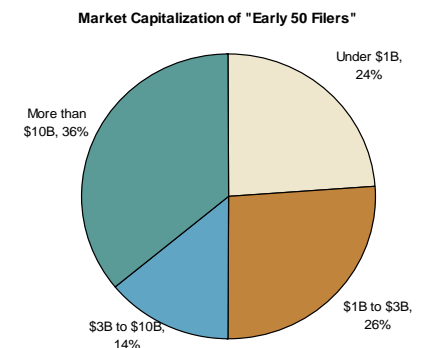
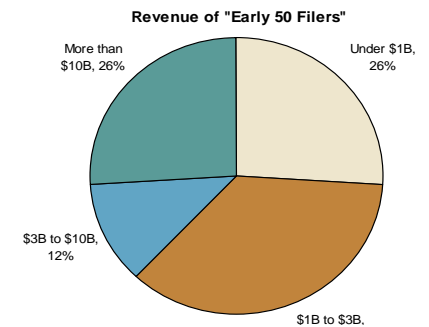
### Approach and Methodology

To conduct our "**Early 50 Filers**" study, we identified 50 companies that:

- Filed proxy statements by March 6, 2008.
- Had two years of reporting under the SEC's expanded executive compensation disclosure rules.

Each company's 2007 and 2008 proxy statements were reviewed to identify year-over-year changes and trends with respect to executive compensation disclosures.

The companies represented a cross-industry sample that was relatively evenly distributed in revenue size and market capitalization.



## Key Findings

### *Length and Readability of CD&As*

While CD&As are clearly getting longer, they are not getting clearer.

- The median number of words in the 2008 CD&A was 5,343, an increase of 13% over 2007, while the median number of pages grew by nearly one-third to just under 10 pages.
  - Even as the SEC was criticizing the 2007 CD&As for being too lengthy, companies were asked to provide more clarity, analysis, and discussion of how and why compensation decisions are made.
  - In turn, companies tried to be more descriptive, which resulted in still longer and more dense CD&As.
- While the SEC emphasized that compensation disclosures should be written in "Plain English," there was little improvement in clarity.
  - Using the Flesch-Kincaid Readability Test, the median result of 16.7 for 2008, equivalent to the reading/comprehension level of a college senior, was unchanged from a year earlier.
  - To put that result in context, this report has a Flesch-Kincaid Readability Test score of 14.1, or that of a college sophomore.

### *Disclosure of Corporate Performance Goals*

Despite heightened disclosure standards and a round of SEC comment letters, companies continue to withhold disclosure of specific performance goals for annual cash incentives.

- Of the 44 firms with performance-based annual incentive programs, 57% disclosed specific performance goals in 2008, compared to 43% in 2007.
- Among firms that did not disclose specific performance goals, 21% provided a reason (either competitive harm or confidentiality) in 2008, up from 8% that did so in 2007.
- Other companies may have excluded performance goals on the ground they were not material to the compensation design or outcome.

- We are also finding that some companies are simply taking a stand not to disclose and are unwilling to compromise on the matter.

### ***Peer Group/Survey Disclosures***

We saw more detailed disclosure of the peer group companies and surveys that were used for benchmarking purposes, driven by the SEC's request for more information about the benchmarking process.

- While 90% of companies indicated use of a peer group of public companies in both 2007 and 2008, there was more disclosure of the specific companies used for comparison purposes - 71% in 2008 compared to 67% in 2007.
- 60% of firms disclosed using survey data for benchmarking purposes, up from 54% in 2007.
- There was significantly more information about the surveys used, with slightly over half of companies naming the specific survey(s) used (up from the 37% in 2007) and significantly more firms disclosing details such as revenue scope and/or industry cut - 60% compared to 48% a year earlier.

### ***Consultant Independence***

The issue of consultant independence issue was a major focus of the recent Waxman Congressional hearings. Corporate governance experts, institutional investors, and compensation consulting firms were called to testify about the role of outside consultants in setting executive pay and efforts to prevent and manage real and perceived conflicts of interest.

- 12% of companies in 2008 specified that their compensation consultants were independent, provided only compensation-related services to the company and had no conflicts of interest - up slightly from 7% in 2007.
- In both 2007 and 2008, 90% of companies said their compensation consultant was retained by the Compensation Committee, rather than management.
- About 81% of the firms provided a description of their compensation consultants' services, up from 73% in 2007.

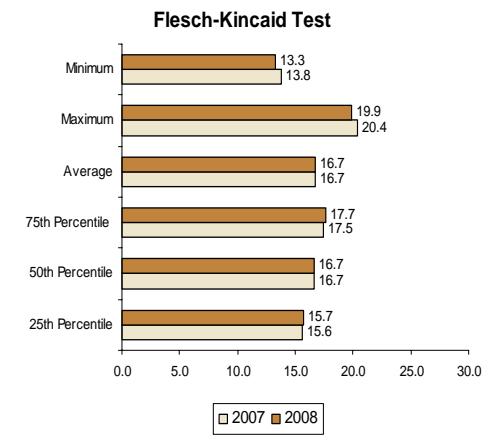
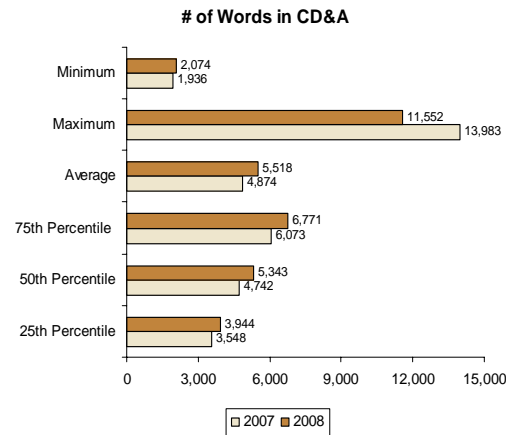
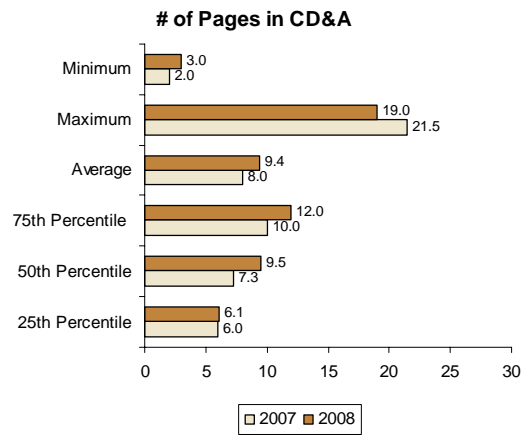
**Corporate Governance**

We had anticipated a sizeable increase in the reporting of corporate governance policies and practices, given that they remain a focus of shareholders, legislators and watchdog groups. However, the level of disclosure did not change significantly:

- 22% of companies disclosed claw-back provisions, compared to 18% in 2007.
- Stock ownership guidelines increased to 70% in 2008 from 64% a year earlier 2007.

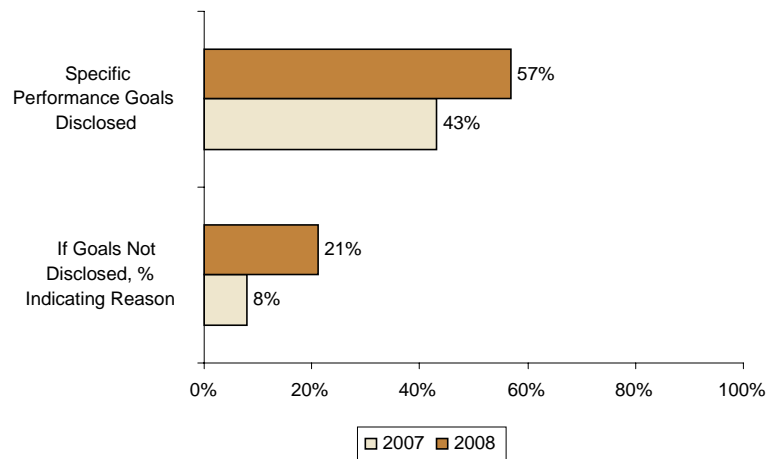
## Detailed Findings

Length and Readability	2008				2007				Increase / Decrease (2007 to 2008)	
	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	Average	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	Average	Median	Average
Length of the CD&A (Pages excluding tables)	6.1	9.5	12.0	9.4	6.0	7.3	10.0	8.0	+2.2	+1.4
Number of words in the CD&A (Words excluding tables)	3,944	5,343	6,771	5,518	3,548	4,742	6,073	4,874	+601	+644
Flesch-Kincaid Readability Test	15.7	16.7	17.7	16.7	15.6	16.7	17.5	16.7	0%	0%

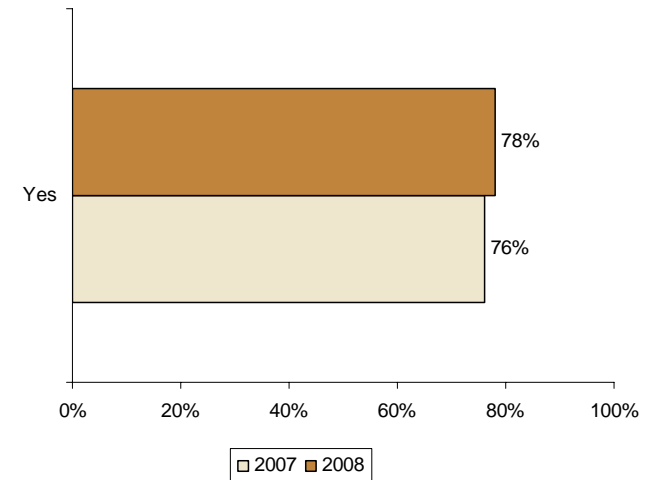


Disclosure of Specific Performance Goals / Link to Market Data	2008		2007		Increase / Decrease (2007 to 2008)
	Yes	No	Yes	No	
With respect to performance-based short-term incentive plans (excluding discretionary plans), were specific corporate performance goals disclosed (i.e., targeting EPS of \$1.41)?	57%	43%	43%	57%	+14%
Of those firms that did not disclose specific corporate performance goals, was a reason for non-disclosure provided?	21%	79%	8%	92%	+13%
Were specific corporate performance goals disclosed for the upcoming year (forward looking)?	8%	92%	12%	88%	-4%
Did companies disclose the targeted levels for executive pay (e.g., base salary is targeted at the 50 <sup>th</sup> percentile)?	78%	22%	76%	24%	+2%

Disclosure of Specific Performance Goals

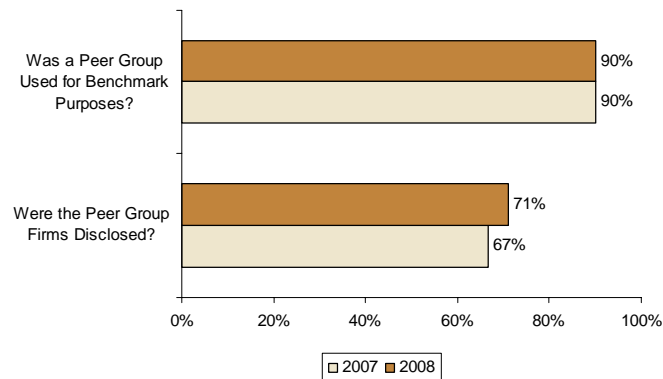


Disclosure of Targeted Levels for Executive Pay

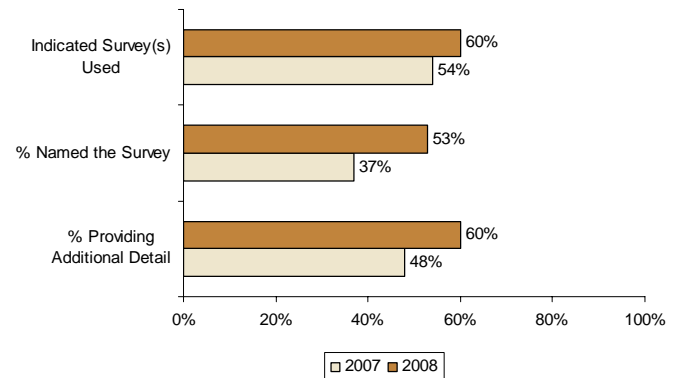


Peer Group Disclosures	2008				2007				Increase / Decrease (2007 to 2008)	
	Yes	No			Yes	No				
Was a peer group of public companies utilized for benchmarking purposes disclosed?	90%	10%			90%	10%				0%
Were the specific names of the companies that made up the peer group identified?	71%	29%			67%	33%				+4%
Peer Group Disclosures	2008				2007				Increase / Decrease (2007 to 2008)	
	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	Average	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	Average	Median	Average
How many companies made up the peer group?	14.0	19.5	25.3	23.3	14.0	18.0	25.5	22.8	+1.5	+0.5
Survey Disclosures	2008				2007				Increase / Decrease (2007 to 2008)	
	Yes	No			Yes	No				
Was a survey source(s) utilized for benchmarking purposes?	60%	40%			54%	46%				+6%
Was the name of the survey(s) disclosed?	53%	47%			37%	63%				+16%
Was any additional detail provided regarding the scope of data used (e.g., revenue size and/or industry cut)?	60%	40%			48%	52%				+12%

Peer Group Use / Disclosure

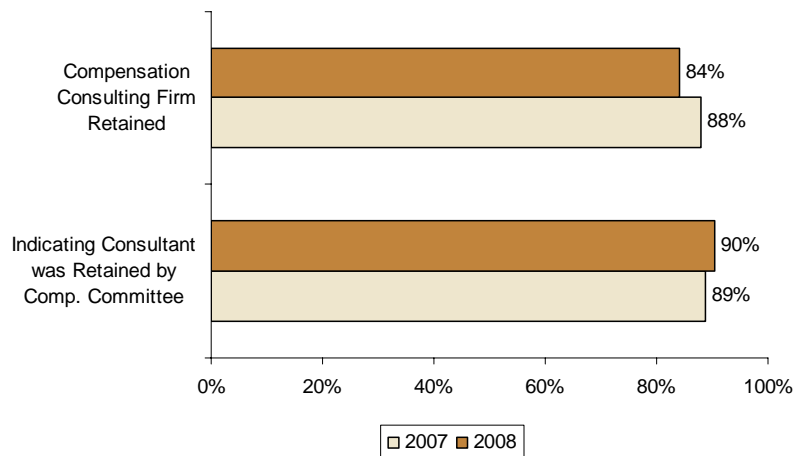


Survey Source Use / Disclosure

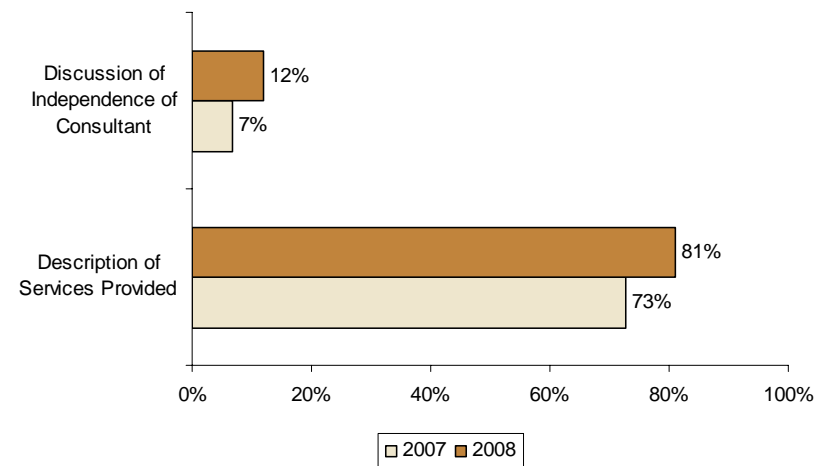


Consultant Independence	2008		2007		Increase / Decrease (2007 to 2008)
	Yes	No	Yes	No	
Was a compensation consulting firm retained?	84%	16%	88%	12%	-4%
Was it specifically stated that the consultant was retained by the Compensation Committee?	90%	10%	89%	11%	+1%
Was there discussion around the independence of the consulting firm retained (i.e., no services other than compensation services provided by consulting firm)?	12%	88%	7%	93%	+5%
Was there a description of the services provided by the consulting firm?	81%	19%	73%	27%	+8%

**Consultant Use / Relationship with Committee**

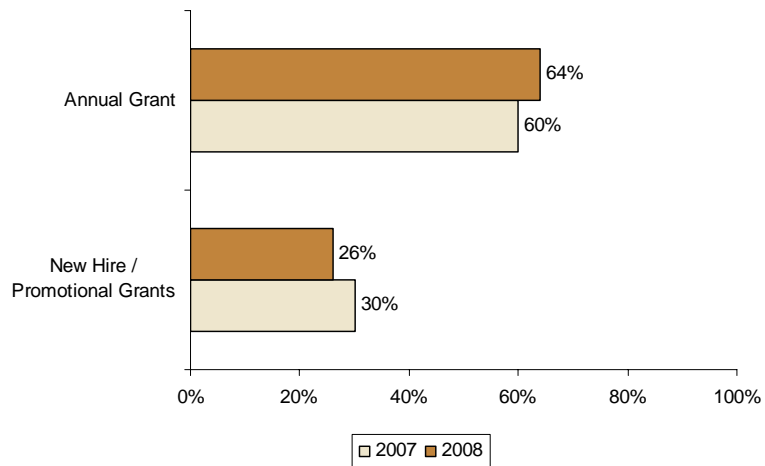


**Consultant Independence / Description of Services**

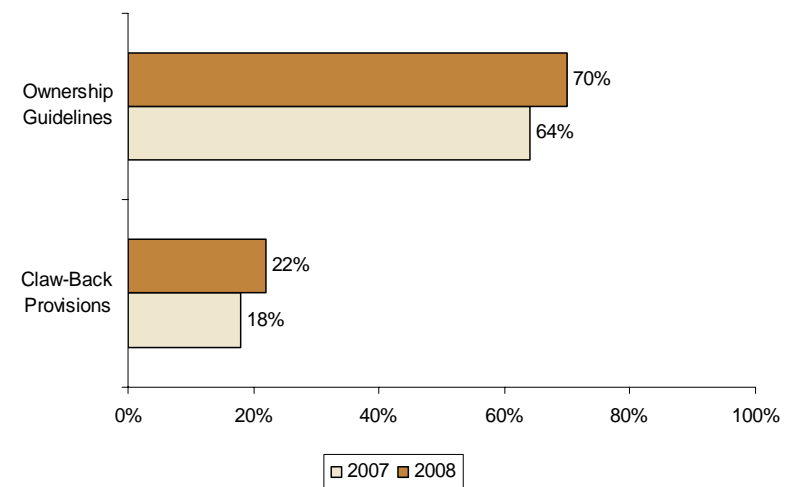


Corporate Governance	2008		2007		Increase / Decrease (2007 to 2008)
	Yes	No	Yes	No	
Was there a stated equity grant policy with respect to the timing of annual equity grants?	64%	36%	60%	40%	+4%
Was there a policy with respect to the timing of new hire or promotional equity grants?	26%	74%	30%	70%	-4%
Did companies disclose having equity ownership guidelines for management?	70%	30%	64%	36%	+6%
Did companies disclose having claw-back provisions?	22%	78%	18%	82%	+4%

Specific Timing Disclosed for Equity Grants

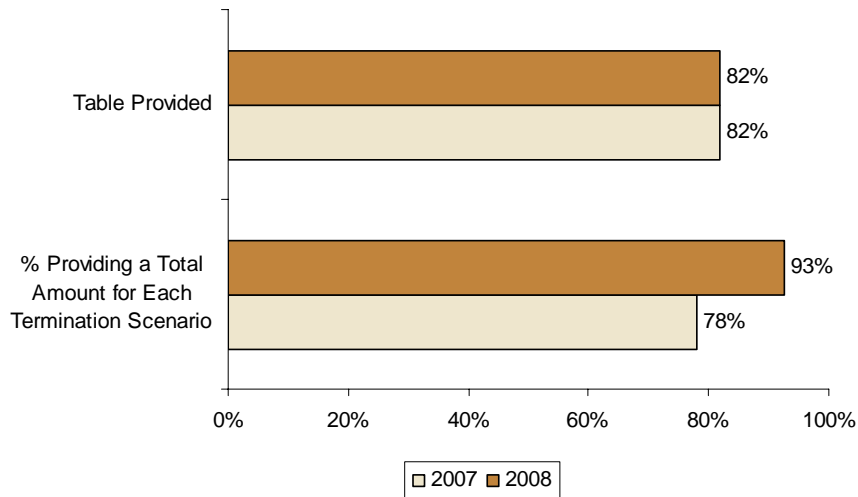


Ownership Guidelines and Claw-Back Provisions

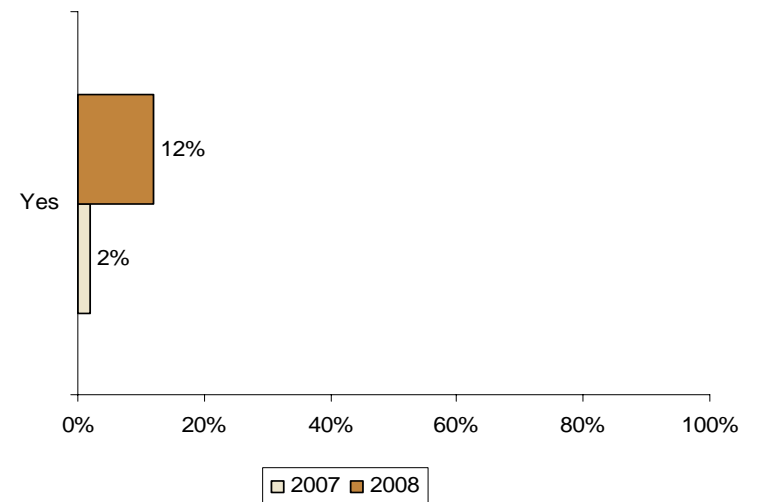


Supplemental Tables / Information	2008		2007		Increase / Decrease (2007 to 2008)
	Yes	No	Yes	No	
Were post-termination summary tables included in addition to the post-termination narrative?	82%	18%	82%	18%	0%
Did the post-termination summary tables provide a total amount for each termination scenario?	93%	7%	78%	22%	+15%
Was a supplemental (2nd look) Summary Compensation Table provided?	2%	98%	2%	98%	0%
Was there an executive summary provided at the beginning of the CD&A?	12%	88%	2%	98%	+10%

**Post-Termination Tables**



**CD&A Executive Summary**





## About Pearl Meyer & Partners

Since 1989, Pearl Meyer & Partners ([www.pearlmeyer.com](http://www.pearlmeyer.com)) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. PM&P provides comprehensive solutions to complex compensation challenges for companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on PM&P to develop programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston and Los Angeles.

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