



TRENDS AND ISSUES REPORT

The 2009 “Early 50 Filers”



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Introduction

About the "Early 50 Filers" Study

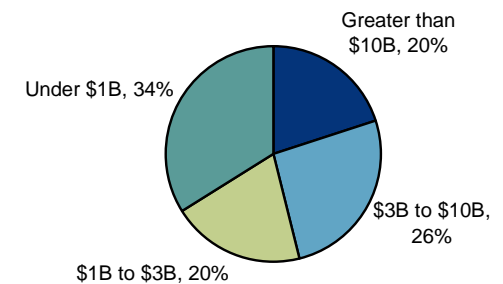
Pearl Meyer & Partners is pleased to present our 2009 "Early 50 Filers" study, an in-depth analysis of executive compensation proxy statement disclosures by 50 companies who filed in early 2009.

Approach and Methodology

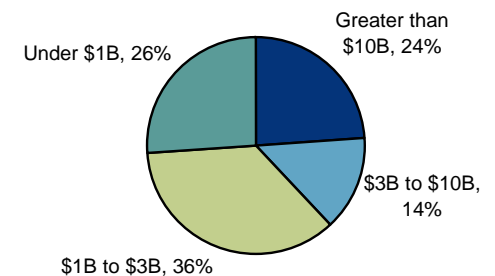
- The companies in the 2009 "Early 50 Filers" study all filed proxy statements by March 23, 2009 and have been reporting under expanded SEC compensation disclosure rules for the past three years.
 - The companies represent a cross-industry sample, distributed relatively evenly by revenue size and market capitalization.
 - The survey group includes 9 companies participating in the U.S. Treasury's Troubled Asset Relief Program (TARP).
- The 50 companies are identical to those included in our 2008 "Early 50 Filers" study, with the exception of four firms replaced due to merger/acquisition or later filing dates.
- The companies' 2009, 2008, and 2007 proxy statements were reviewed for changes or trends in their reporting of executive compensation programs.
- Comparisons were made among all companies, as well as between the TARP and Non-TARP companies.

For more information or questions regarding the study, please contact Michael Enos at michael.enos@pearlmeier.com or 508.630.1479 or Greg Camarco at gregory.camarco@pearlmeier.com or 508.630.1501.

Market Capitalization of "Early 50 Filers"



Revenue of "Early 50 Filers"



Preface: What Do 2009 Disclosures Tell Us About Next Year's Disclosures?

This was the third proxy season under the SEC's expanded proxy disclosure rules for executive compensation. Unlike the first two years, the 2009 proxies were filed in the wake of a complex financial crisis and unprecedented initiatives by Congress, the SEC and Treasury to directly limit executive pay at many financial organizations. At the same time, the compensation landscape has been roiled by a movement to mandate Say on Pay for all companies, the prospect of new SEC amendments to proxy statement disclosure requirements and continued attention by investors and the media to executive pay levels and practices.

We anticipate next year's proxies will reveal the most changes seen in executive compensation disclosures since 2006/2007, when the SEC expanded its rules. Many of the changes and enhanced disclosures we saw in 2009 proxies will be more prominent and on a much broader scale. In particular, in 2010 we expect:

More Clear and Complete CD&As

The difference between a "for" or "against" Say on Pay vote may depend on the extent to which investors understand the CD&A. In preparing for Say on Pay, which we believe will be in place for all companies by 2010, we anticipate companies will focus on ensuring that their CD&As are clear, complete, and not subject to misunderstanding. Specific changes we are likely to see in 2010 include:

- Enhanced disclosure of why executive compensation decisions are made.
 - The SEC has long argued that the discussion of "why" compensation decisions are made is as important as the "how" and "what" of programs. As shareholder frustration grows over perceptions of pay for non-performance, companies must provide more clear and defensible rationales for their decisions. To this end, we believe Compensation Committees will turn to more rigorous types of analyses, including:
 - .. *Pay for performance analyses*, which demonstrate the alignment of pay, shareholder return, and company performance.
 - .. *Wealth accumulation analyses*, which model the potential value of compensation based on a wide range of possible performance scenarios.

.. *Internal equity analyses*, which examine differences in pay among executives and potentially against employees below the named executive officer level.

- An increase in the use of executive summary sections at the beginning of the CD&A to enhance shareholder understanding of compensation programs.
 - Executive summaries can be used to set forth the major compensation decisions of the past year and directly convey the company's desired message to investors.
- More disclosure of benchmarking practices.
 - Compensation benchmarking practices have been blamed for ratcheting up executive pay, with peer groups often criticized for being ill-contrived and inappropriate.
 - We anticipate expanded reporting of who is responsible for selecting peer group firms, how firms are selected and the criteria used, in addition to a list of the individual firms included in the peer group.

More Disclosure Demonstrating the Independence of Compensation Consultants

- SEC Chairman Schapiro has suggested that in coming months the staff will be examining enhanced disclosure for compensation consultant conflicts of interest.
 - We anticipate a move to enforce greater disclosure regarding the relationship between compensation consultants, the board of directors, and a company's management.
 - More companies are likely to adopt and disclose their policies on independence.

Disclosure of Policies and Programs that Mitigate Risk

- Currently, only TARP companies are required to perform a risk assessment process to ensure their compensation programs do not encourage "unnecessary and excessive risk-taking." The SEC is likely to call for all companies to disclose how risk is being managed in the context of setting compensation, even as such assessments are quickly becoming considered best practice in corporate governance circles.

- In the meantime, we anticipate that more companies will disclose if their policies and programs mitigate excessive risks through means such as claw-back provisions, a "balanced portfolio" of performance measures, relative performance measures, and holding requirements for long-term incentives.

Changes to Compensation Programs in Reaction to the Economic Downturn and to Improve "Optics"

- Companies are under pressure to control expenses and conserve cash, while stock prices are reduced to levels that can make it difficult to match prior long-term incentive grant values. As a result, we expect to see a continued trend of changes to base salary, short-term incentives and long-term incentive programs that will be reported in 2010, including:
 - Base salary freezes and cuts (with the possible exception of TARP companies).
 - Bonus payouts below targeted levels and changes in annual incentive designs, such as changes in performance measures and shorter performance periods (e.g., quarterly) for annual incentive programs.
 - Decreases in long-term incentive values.
 - A continued shift in equity use from stock options to time-vested restricted stock.
 - Stock option exchange programs.
- With Boards more mindful of how compensation programs are perceived by outside constituencies and continued pressures from proxy advisory firms to eliminate certain pay practices, we anticipate changes to improve optics in 2010 including:
 - Modifying severance/change-in-control arrangements by:
 - .. Eliminating excise tax gross-ups.
 - .. Requiring a double trigger for equity acceleration in change-in-control situations.
 - .. Re-defining definitions to ensure limited or zero severance for poor performance.
 - .. Instituting sunset provisions that reduce or eliminate severance for executives with long tenure or significant wealth accumulation.

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- Minimizing perquisites and eliminating related tax gross-ups.
 - Eliminating SERP enhancements.
 - Companies also will focus on programs that better align long-term performance with shareholder interests, including:
 - Stock ownership and retention requirements such as "hold to retirement" and "hold past retirement".
 - Retention of a portion of annual incentive awards pending sustained performance results.
 - Payment of incentive awards above a certain level (e.g., target) in the form of restricted stock or unvested deferred compensation.

Overview of 2009 “Early 50 Filers” Findings

Length and Readability of CD&As

Despite persistent SEC criticism that disclosures are overly difficult and should be written in “Plain English,” 2009 CD&As were longer and wordier than ever. Efforts at simplification were hampered by new disclosure requirements imposed by TARP and requests from the SEC for more details of executive compensation decision-making.

- CD&As for the 50 companies were 5,402 words at median, up from 5,154 in 2008 and 4,518 in 2007. This roughly translates to one page more than 2008 CD&As and 3 pages longer than 2007 CD&As.
- At median, CD&As for TARP companies were 3,724 words longer, or about 3.5 more pages, than Non-TARP companies.
- At median, the level of reading/comprehension was that of a college senior, or 16.8 based on the Flesch-Kincaid Readability Test – up slightly up from 16.7 in 2008 and 16.6 in 2007. (To put in context, this report has a readability score of 15.3, or a college Junior.)
- However, 28% of companies tried to simplify their CD&As by including an executive summary at the beginning of the CD&A, up from 14% that provided a summary in 2008.

Disclosure of Corporate Performance Goals

Among the biggest areas of SEC concern since expanded proxy disclosure of compensation went into effect has been the reporting of goals for performance-based awards. While the analysis found an increasing number of companies disclosing specific financial targets for performance-based cash incentives, many continue to withhold such details.

- Among firms with a performance-based cash incentive plan, 65% reported specific performance targets, compared to 62% in 2008 and 49% in 2007.
- TARP companies were more likely than non-TARP companies to disclose performance targets (75% compared to 63%, respectively). However, both groups saw a similar increase from a year earlier, suggesting that receiving federal aid was not a significant factor.
- Among firms that did not disclose specific financial targets, 19% provided a reason (e.g., competitive harm), down slightly from 24% in 2008 but up from 9% in 2007.

Benchmarking

The SEC continues to call for more disclosure of benchmarking practices, including the names of companies used in peer groups and an explanation of how benchmarking data on compensation was used in decision-making.

- Among the 86% of companies that disclosed use of a peer group for benchmarking purposes, there was a slight uptick in those naming the specific companies included: 77% in 2009, compared to 75% in 2008, and 69% in 2007.
- 76% of firms reported the use of survey data for benchmarking purposes, up from 64% in 2008 and 60% in 2007.
 - However, there was a decrease in the percentage of companies that listed the specific surveys used for benchmarking and that provided detail about the survey cuts employed (e.g., revenue size, industry cut).
- 74% of companies disclosed target levels for executive pay (e.g., "base salary is targeted at the 50th percentile"), slightly less than a year earlier.

Independence of the Consultant

Many Compensation Committees retain an independent executive compensation consulting firm to reduce the potential for a highly visible conflict within the overall governance process, the perception of excessive management influence on the pay process, or the likelihood of decisions and programs being questioned down the road.

- 39% of companies specified that their compensation consultant provided only compensation consulting services and had no conflicts of interest, up from 31% in 2008, and 20% in 2007.
- 98% of companies said their compensation consultant was retained directly by the Compensation Committee rather than by management, up from 90% in 2008.

Corporate Governance

The perspective of shareholders has never been more acute, given significant reductions in shareholder wealth, outrage over executive compensation at many financial services organizations receiving government bailouts, and growing support for giving shareholders a direct voice on compensation programs via a Say on Pay proxy vote. With the added impact of pay requirements imposed under TARP, we had anticipated a sizable increase in reporting of corporate governance policies and practices.

- Overall, the number of companies reporting ownership guidelines rose slightly (74% in 2009 versus 70% in 2008, and 62% in 2007).
- More companies disclosed claw-back provisions (40% in 2009 versus 26% in 2008, and 22% in 2007), but the increase was largely due to a requirement that TARP participants have claw-backs in place.
- Although only TARP companies are required to assess whether incentive plans encourage "unnecessary and excessive risk-taking," 20% of non-TARP companies disclosed they assessed plans for excessive risk.
 - This suggests that regulatory requirements on TARP companies are influencing the broader marketplace.
- All TARP companies put Say on Pay proposals before their shareholders, as required for fund recipients, while 10% of non-TARP companies did so.

Pay Changes in Response to the Economic Downturn and Increased Shareholder Scrutiny

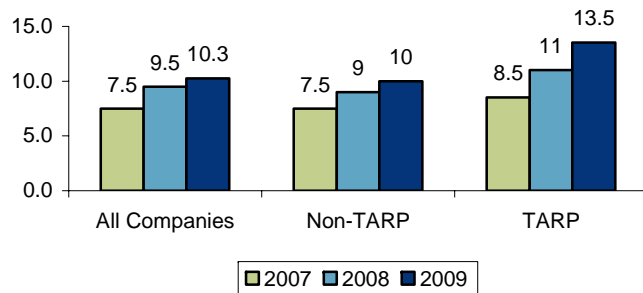
Several companies disclosed changes to their executive compensation programs, including "forward looking" disclosures in which changes would be effective in 2009 and impact pay levels reported in next year's proxy. Among the changes:

- 44% of companies disclosed a base salary freeze or reduction for 2009.
- 24% announced changes to their short-term incentive program (e.g., moving to discretionary plans, widening payout ranges/decreasing thresholds, decreasing maximums) or applying negative discretion for bonus payouts.
- 28% disclosed adjustments to 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 instruments).
- 14% of companies disclosed modifications to their CEO's change-in-control benefits (e.g., moving from full gross-ups to modified gross-ups, reducing the severance multiple, or changing from single to double-trigger provisions).
 - 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).
- 8% of companies made various changes to other compensation programs (e.g., eliminating tax gross-ups on perquisites).

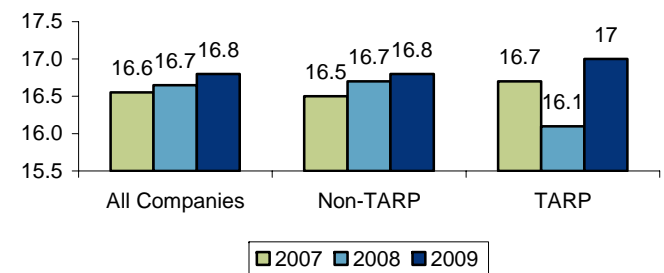
Detailed Summary of 2009 "Early 50 Filers" Findings

Length and Readability	Perspective	2009	2008	2007	Increase / Decrease	
					2007 to 2008	2008 to 2009
Median length of the CD&A - Pages (excluding tables)	TARP Companies	13.5	11.0	8.5	+2.5	+2.5
	Non-TARP Companies	10.0	9.0	7.5	+1.5	+1.0
	All Companies	10.3	9.5	7.5	+2.0	+0.8
Median length of the CD&A - Words (excluding tables)	TARP Companies	8,972	6,469	5,435	+1,034	+2,503
	Non-TARP Companies	5,248	4,874	4,392	+482	+374
	All Companies	5,402	5,154	4,518	+636	+248
Median Flesch-Kincaid readability score	TARP Companies	17.0	16.1	16.7	-0.6	+0.9
	Non-TARP Companies	16.8	16.7	16.5	+0.2	+0.1
	All Companies	16.8	16.7	16.6	+0.1	+0.1

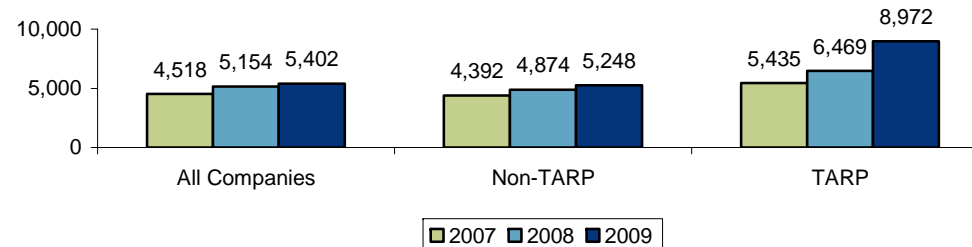
CD&A Median Number of Pages



Median Flesch-Kincaid Readability Score

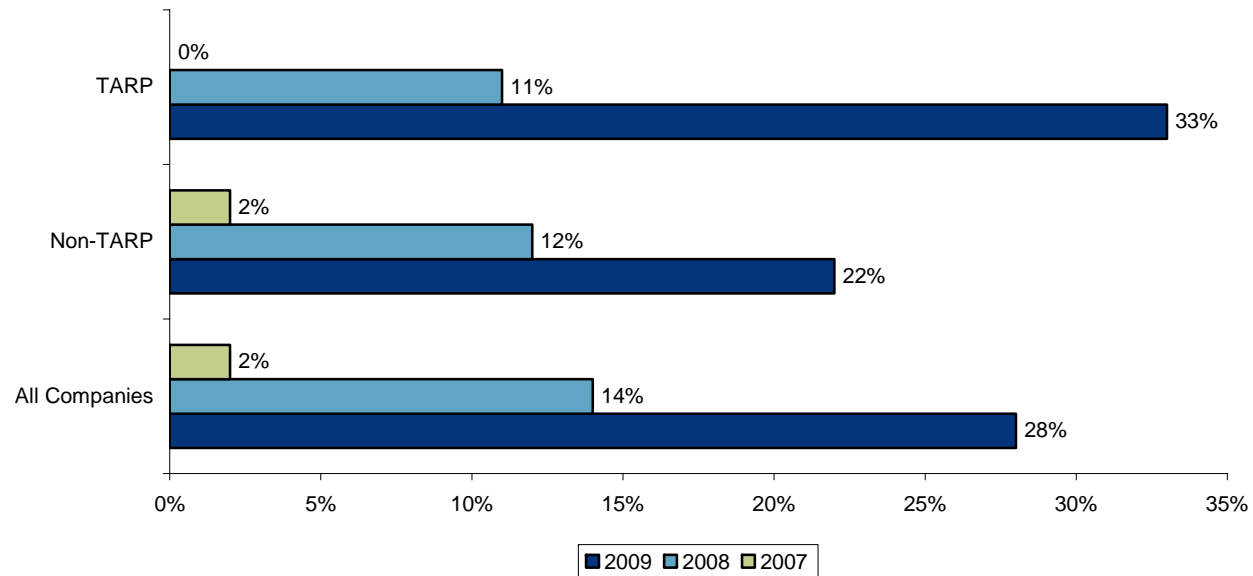


CD&A Median Number of Words



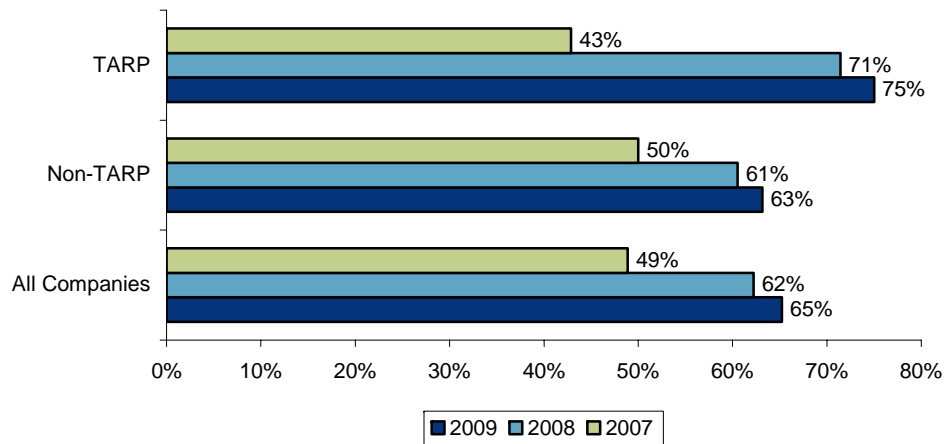
Length and Readability	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Was there an Executive Summary at the beginning of the CD&A?	TARP Companies	33%	67%	11%	89%	0%	100%	+11%	+22%
	Non-TARP Companies	22%	78%	12%	88%	2%	98%	+10%	+10%
	All Companies	28%	72%	14%	86%	2%	98%	+12%	+14%

Executive Summary

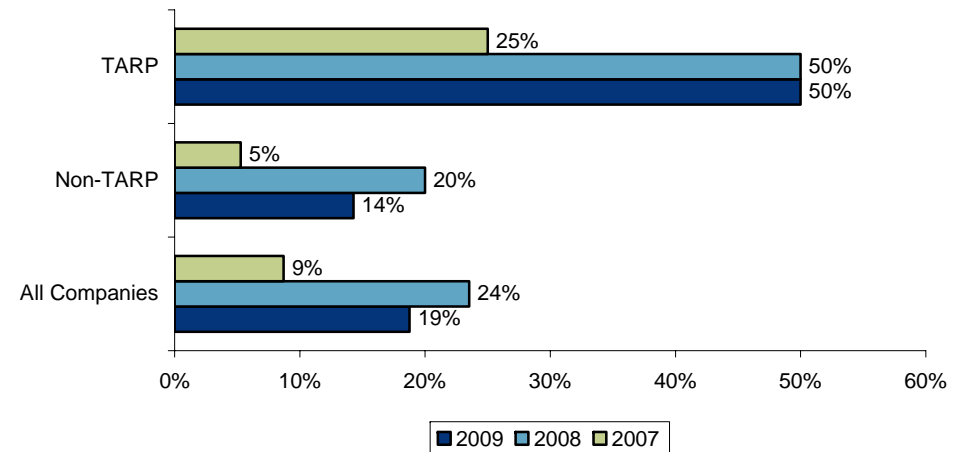


Disclosure of Corporate Performance Targets / Link to Market Data	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
With respect to performance-based short-term incentive plans (excluding discretionary plans), were specific corporate performance targets disclosed (i.e., targeting EPS of \$1.41)?	TARP Companies ¹	75%	25%	71%	29%	43%	57%	+28%	+4%
	Non-TARP Companies ¹	63%	37%	61%	39%	50%	50%	+11%	+2%
	All Companies ¹	65%	35%	62%	38%	49%	51%	+13%	+3%
Of those firms that did not disclose specific corporate performance targets, was a reason for non-disclosure provided?	TARP Companies ²	50%	50%	50%	50%	25%	75%	+25%	0%
	Non-TARP Companies ²	14%	86%	20%	80%	5%	95%	+15%	-6%
	All Companies ²	19%	81%	24%	76%	9%	91%	+15%	-5%

Disclosure of Specific Performance Goals



Reason Provided for Non-Disclosure of Performance Targets

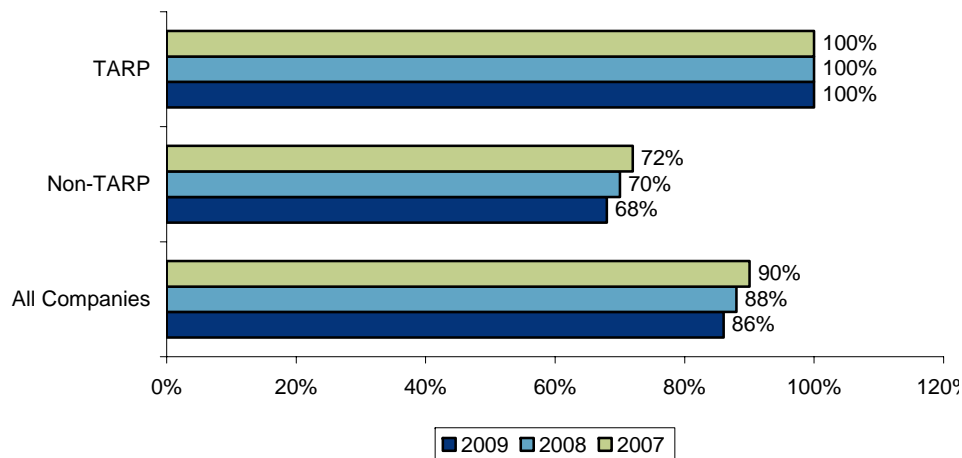


¹ Does not include companies with discretionary annual incentive plans.

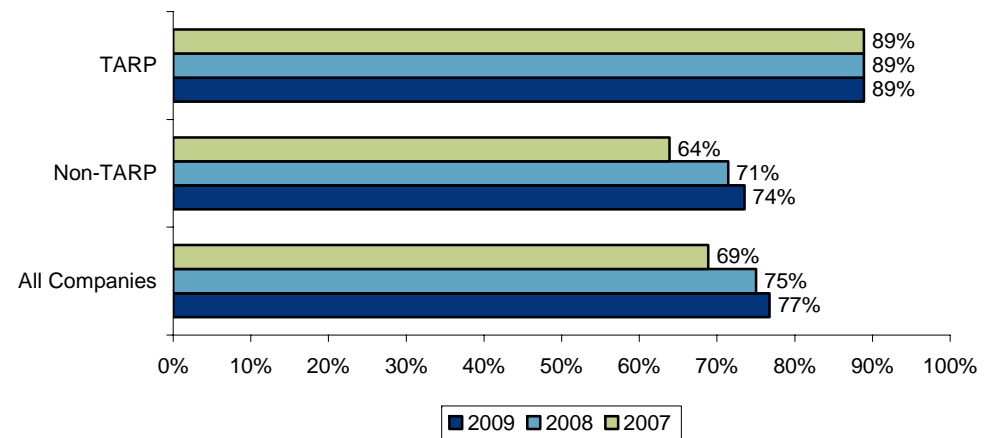
² Based on companies that have formula based incentive plans and did not disclose performance targets.

Peer Group Disclosures	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Was a peer group of public companies utilized for benchmarking purposes disclosed?	TARP Companies	100%	0%	100%	0%	100%	0%	0%	0%
	Non-TARP Companies	68%	32%	70%	30%	72%	28%	-2%	-2%
	All Companies	86%	14%	88%	12%	90%	10%	-2%	-2%
Were the specific names of the companies that made up the peer group identified?	TARP Companies	89%	11%	89%	11%	89%	11%	0%	0%
	Non-TARP Companies	74%	26%	71%	29%	64%	36%	+7%	+3%
	All Companies	77%	23%	75%	25%	69%	31%	+6%	+2%
Did companies disclose the targeted levels for executive pay (e.g., "base salary is targeted at the 50 th percentile")?	TARP Companies	78%	22%	78%	22%	78%	22%	0%	0%
	Non-TARP Companies	60%	40%	64%	36%	62%	38%	+2%	-4%
	All Companies	74%	36%	78%	22%	76%	24%	+2%	-4%

Used a Peer Group

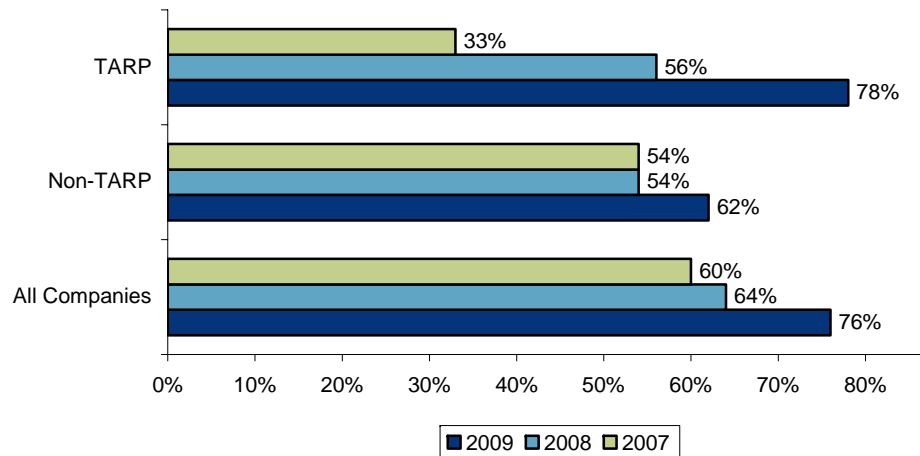


Disclosed Names of Peer Group Firms

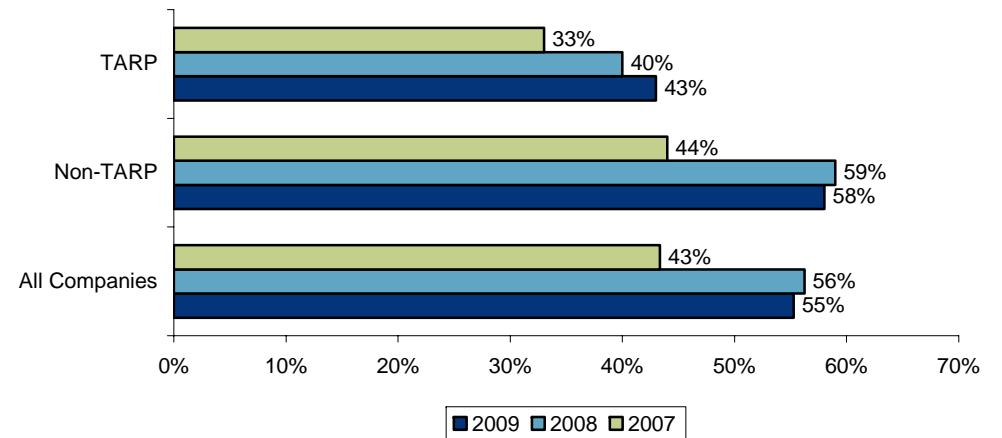


Survey Disclosures	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Was a survey source(s) utilized for benchmarking purposes?	TARP Companies	78%	22%	56%	44%	33%	67%	+23%	+22%
	Non-TARP Companies	62%	38%	54%	46%	54%	46%	0%	+8%
	All Companies	76%	24%	64%	36%	60%	40%	+4%	+12%
Was the name of the survey(s) disclosed?	TARP Companies	43%	57%	40%	60%	33%	67%	+7%	+3%
	Non-TARP Companies	58%	42%	59%	41%	44%	56%	+15%	-1%
	All Companies	55%	45%	56%	44%	43%	57%	+13%	-1%
Was additional detail provided (e.g., revenue size and/or industry cut)?	TARP Companies	14%	86%	20%	80%	0%	100%	+20%	-6%
	Non-TARP Companies	55%	45%	67%	33%	52%	48%	+15%	-12%
	All Companies	47%	53%	59%	41%	47%	53%	+12%	-12%

Indicated Survey(s) Used

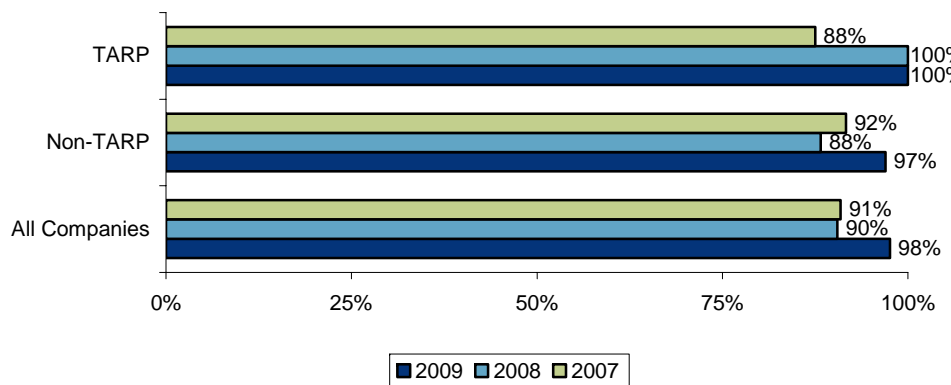


Named the Survey(s)

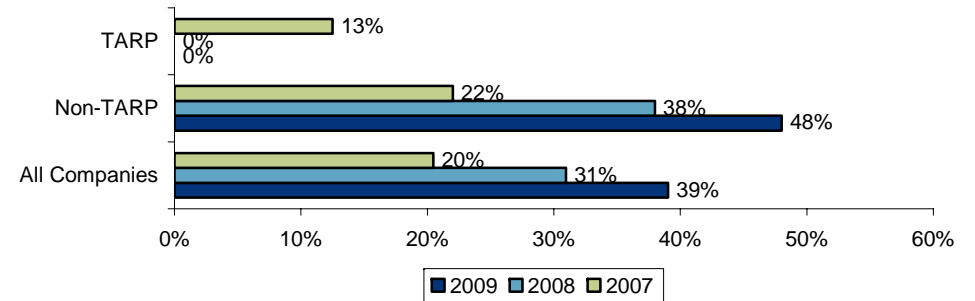


Role of the Consultant	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Was it specifically stated that the consultant was retained by the Compensation Committee?	TARP Companies	100%	0%	100%	0%	88%	12%	+12%	0%
	Non-TARP Companies	97%	3%	88%	12%	92%	8%	-4%	+9%
	All Companies	98%	2%	90%	10%	91%	9%	-1%	+8%
Was there discussion around the independence of the consulting firm retained (i.e., no services other than compensation services provided by consulting firm)?	TARP Companies	0%	100%	0%	100%	13%	87%	-13%	0%
	Non-TARP Companies	48%	52%	38%	62%	22%	78%	+16%	+10%
	All Companies	39%	61%	31%	69%	20%	80%	+11%	+8%

Consultant Retained by the Compensation Committee

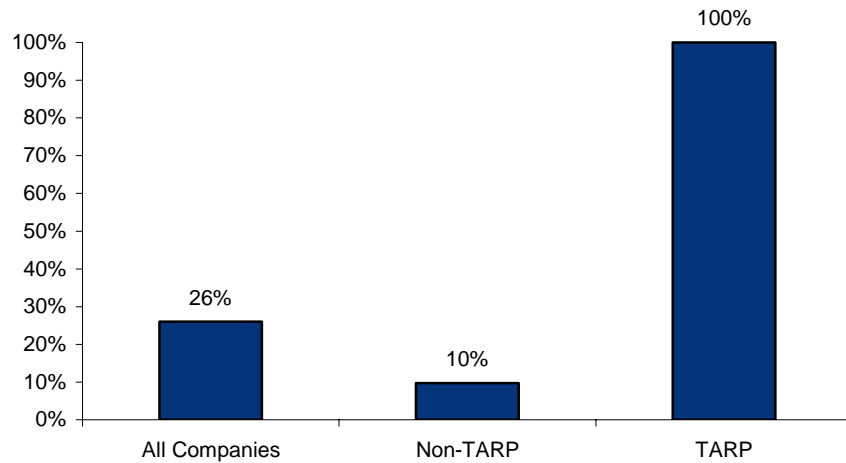


Discussion of Consultant Independence

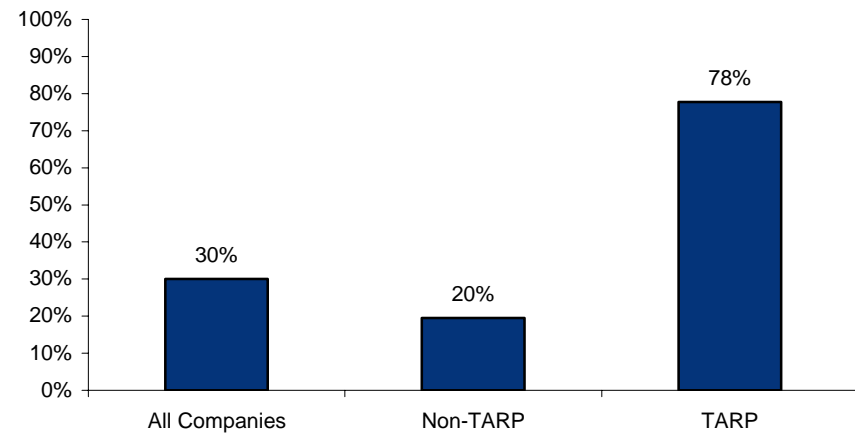


Corporate Governance	TARP Companies		Non-TARP Companies		All Companies	
	Yes	No	Yes	No	Yes	No
Was there a Shareholder/Management Proposal for "Say on Pay"?	100%	0%	10%	90%	26%	74%
Was there an excessive risk discussion?	78%	22%	20%	80%	30%	70%

Say on Pay Proposal

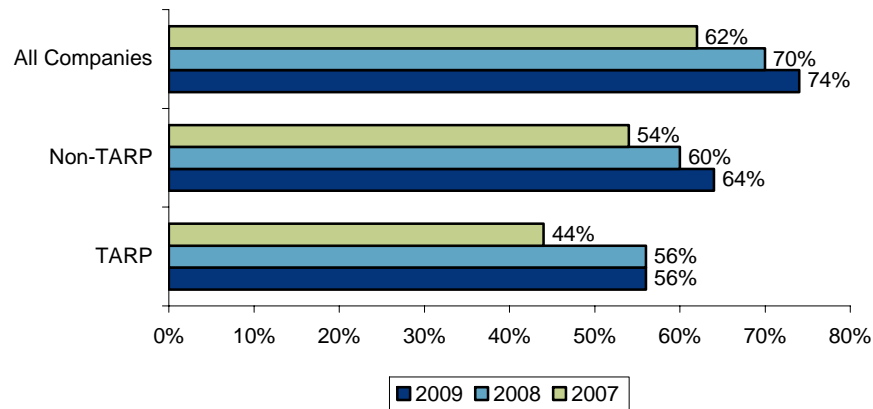


Excessive Risk Discussion

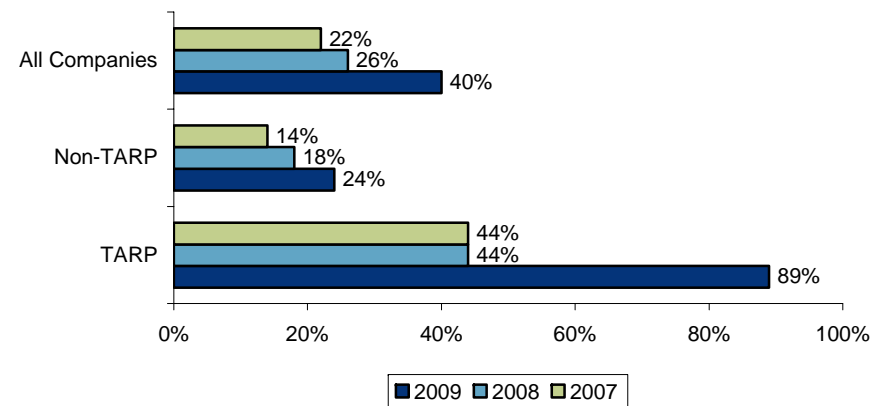


Corporate Governance	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Did companies disclose having equity ownership guidelines for management?	TARP Companies	56%	44%	56%	44%	44%	56%	+12%	0%
	Non-TARP Companies	64%	36%	60%	40%	54%	46%	+6%	+4%
	All Companies	74%	26%	70%	30%	62%	38%	+8%	+4%
Did companies disclose having claw-back provisions?	TARP Companies	89%	11%	44%	56%	44%	56%	0%	+45%
	Non-TARP Companies	24%	76%	18%	82%	14%	86%	+4%	+6%
	All Companies	40%	60%	26%	74%	22%	78%	+4%	+14%

Ownership Guidelines

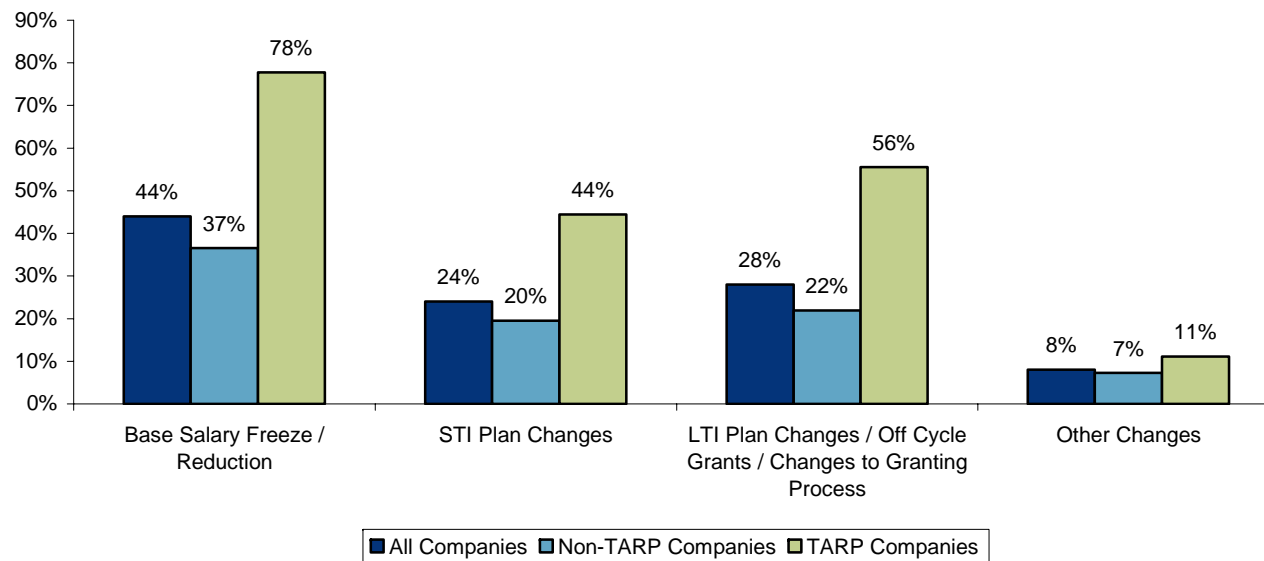


Claw-Back Provisions



Perspective	Changes Due to the Economic Environment			
	Base Salary Freeze / Reduction	Short-Term Incentive (STI) Plan Changes	Long-Term Incentive (LTI) Plan Changes	Other Changes
TARP Companies	78%	44%	56%	11%
Non-TARP Companies	37%	20%	22%	7%
All Companies	44%	24%	28%	8%

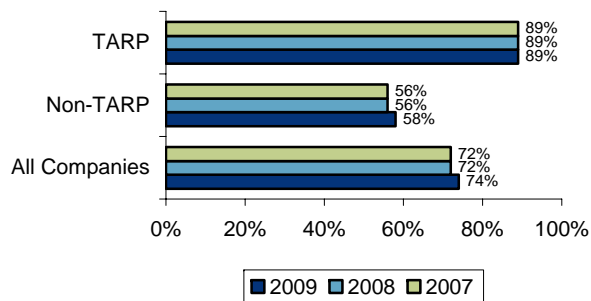
Changes Due to the Economic Environment



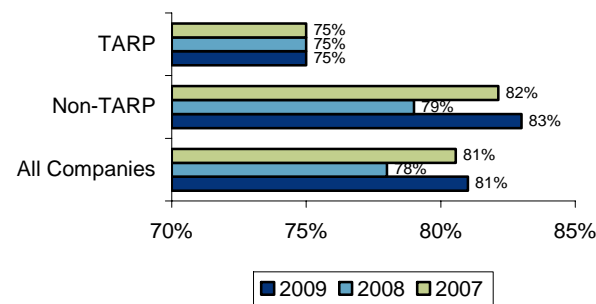
Change-in-Control	Perspective	2009		2008		2007		Increase / Decrease	
		Yes	No	Yes	No	Yes	No	2007 to 2008	2008 to 2009
Does the CEO have a Change-in-Control Agreement?	TARP Companies	89%	11%	89%	11%	89%	11%	0%	0%
	Non-TARP Companies	58%	42%	56%	44%	56%	44%	0%	+2%
	All Companies	74%	26%	72%	28%	72%	28%	0%	+2%
Does the Change-in-Control Agreement contain a gross-up provision?	TARP Companies	75%	25%	75%	25%	75%	25%	0%	0%
	Non-TARP Companies	83%	17%	79%	21%	82%	18%	-3%	+4%
	All Companies	81%	19%	78%	22%	81%	19%	-3%	+3.0%

Was the CEO Change-in-Control Agreement recently modified?	TARP Companies	Non-TARP Companies	All Companies
	11%	15%	14%

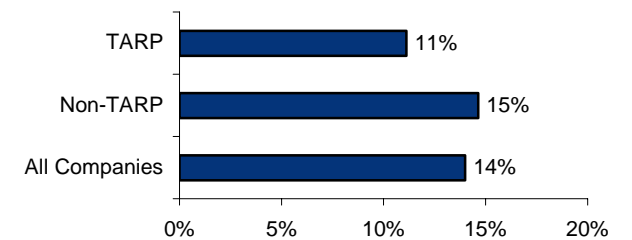
CEO Change-in-Control Agreements



CEO Gross-Ups



CEO Change-in-Control Benefit Modifications





About Pearl Meyer & Partners

For twenty years Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation strategy and program design, compliance and reporting, and committee structure, policies and procedures. The firm provides comprehensive solutions to complex compensation challenges for companies across all industries ranging from the Fortune 500 to smaller private companies and not-for-profits, as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston and Los Angeles.

Contact Us

For other information and guidance on compensation issues, or to learn more about Pearl Meyer & Partners' services, please feel free to contact any of our offices listed in this report or you may contact each office by email at the addresses listed below:

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