

National Association of Corporate Directors



The Compensation Conundrum

Navigating Lake Wobegon

NACD Florida: March 2006

Panel Members

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Introduction

Executive Compensation Policy

- *No Other Board Committee has such a Profound Personal Impact on Your CEO and Every Employee.*
- One of Your Board's Most Challenging Governance Issues.
- Must Address a Wide Array of Complex Questions.
- *New SEC Rules Require Everything* to be Disclosed!
- More Negative Publicity on the Horizon?

The Compensation Committee
Faces Very Complex Issues



The Committee's Challenge is to Make Certain that
All Elements of the Compensation Program
Fit Together into a Balanced Plan that Works as a Whole

Add it **All** Up – Avoid Surprises!

Compensation Philosophy

- **Shareholder Performance Expectations?**
 - Earnings per Share?
 - Return on Equity?
 - Dividends?
 - Other Expectations?

- **Compensation Plans: Linkage to Performance?**
 - Base Pay
 - Annual Incentives
 - Long Term Incentives
 - Retirement Programs
 - Perquisites

- **Executive & Employee Expectations/Perception?**

- **Does Your Board Really Understand the 'Total' Cost?**

- **New SEC Proxy Disclosure & Shareholder Perception?**

Performance vs. Entitlement?

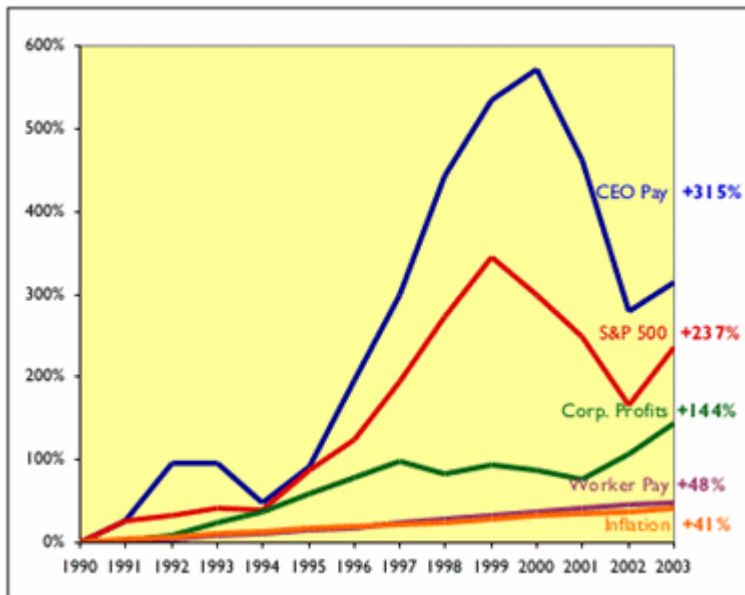
- **CEO Compensation**
 - CEO Pay vs. Corp Performance? Peer Group?
 - “Peer” Performance is a “C” – Not an “A”

- **Compensation Package?**
 - Base Pay? (Entitlement?)
 - Annual Bonus: (Cash – Link to Performance?)
 - Long Term Incentive: (Stock – Link to Performance?)
 - Retirement & Supplemental Plans (Entitlement?)
 - Perquisites?

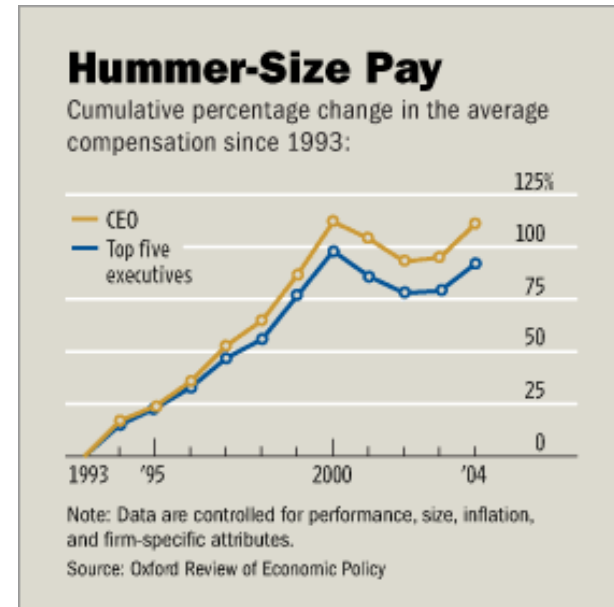
- **Equity Compensation**
 - FASB & Option Expense
 - Trend from Options to Restricted Stock
 - Plan’s Linkage to Corporate Performance?
 - Plan’s Linkage to Individual Performance?

Public Perception: The "Lake Wobegon" Effect

"Mythical Place Where Every CEO is Top Quartile!"



Business Week: Annual Executive Pay Surveys.



Wall Street Journal: 1.2006

Following the Crowd: Not the “Right Thing”

Board Frustration with Compensation Consultants

- **A Board Member’s Viewpoint**

“In my view the executive compensation conundrum hasn't changed in twenty years. The compensation committee brings ‘objectivity’ to their process by commissioning a compensation survey. The survey discloses an array of compensation valuations ordered in percentiles.

The arguments are made that (1) if you pay below the median your executives will not perform or will leave; and/or (2) we are or aspire to be a top tier company so we have to pay top tier compensation. Committees and boards then award compensation above the old median.

Each subsequent year this is repeated. The escalation has in mathematical terms been geometric. If that chain can't be broken the pervasive gross inequality is going to have serious political and social consequences.”

Board Member: Top 20 Bank

The Other Side of the Coin

All Executive Compensation Isn't Excessive!

- **Compensation "Envy": *"He/She makes more than I do!"***

It may be difficult for certain board members to understand why they should pay someone else more than they earn. Personal comparisons have no relationship to performance based compensation.

- **Need to Recruit: *"Let's just promote Bob or Sue."***

Do you need to recruit an outsider to fill an important executive position? Are you willing to pay a competitive rate for a new executive; or, do you settle for "Second Best" and shortchange your shareholders?

- **Sales Incentives: *"I didn't realize he/she could make so much!"***

High payouts to commission based sales people can create executive and board member backlash. Make certain you (1) understand such plans in advance and (2) your company profits from the compensation relationship.

**Don't Overreact to Public Criticism of Executive Compensation
Your Job is to Seek the "Right" Balance – It Won't be Easy!**

The Compensation Committee's Challenge

Navigating Lake Wobegon "Your Crew Members"

- **Compensation Consultant:**

Helps You Design Appropriate Compensation Plans: Required to Recruit, Retain, Motivate and Reward a Quality Management Team.

- **CPA Firm:**

Helps You Avoid Financial Surprises: Understand the Total Cost [Income Statement, Cash Flow, Tax & Proxy] of Every Plan Before you Vote.

- **Law Firm:**

Helps You Design Plans that Avoid Regulatory and Legal Surprises: SEC, IRS and Employment Regulations are Increasingly Complex.

Professional Guidance Can Help You Design Appropriate Plans that Meet Your Objectives and Avoid Unintended Results.

The Compensation Committee's Challenge

**Navigating Lake Wobegon
"Your Destination"**

Avoid Board/Management Conflict and Balance:

- **Shareholder Performance Expectations with**
- **Management's Compensation Expectations.**

**No "Right Answer" for Every Company
Each Board is a Unique Blend of Talent and Personality**

Charles J Thayer

Charles J. Thayer is Chairman and Managing Director of **Chartwell Capital Ltd.**, a private investment firm that provides specialized advisory services to executive management and board members of commercial banks, corporations and institutional investment clients.

Chartwell Capital's investment banking services focus on merger and acquisition advisory services for financial institutions. The **American Banker** and **Bank Director Magazine** both ranked Chartwell among the nation's Top Financial M&A Advisors in 1998 and 2001.

The **American Association of Bank Directors** named Thayer to its Board of Advisors in 2004. The AABD is a national non-profit organization serving the information, education and advocacy needs of financial institution directors. He is also a founding board member of the **National Association of Corporate Directors** Florida Chapter.

Thayer's combination of executive management and board experience brings a unique perspective to Chartwell's advisory services. He served on the board of **Republic Bank** (NASDAQ) in Florida from 1999 until 2004 and continues to serve as a board member of **BB&T Bank (Florida)** following BB&T's 2004 acquisition of Republic Bank. He currently serves as a board member of the **Louisville Community Development Bank** in Kentucky (1996-present) and for the national **Cystic Fibrosis Foundation** (1980-present).

Previous board service includes **CogenAmerica** (NASDAQ) (1996-1999), an independent multi-state cogeneration power producer headquartered in Minnesota, and **Sunbeam Corporation** (NYSE) (1990-1997), an international consumer products company. He served as Chairman and interim CEO of Sunbeam in 1993. John A. Byrne (Business Week) described Thayer as Sunbeam's "most knowledgeable director". Thayer also served as an advisory board member of **Keefe Managers** (1989-2002); a New York based bank stock hedge fund founded by Harry V. Keefe.

Prior to organizing Chartwell Capital in 1990, Thayer had a twenty year career in commercial banking. Thayer served as Executive Vice President and Chief Financial Officer of **Citizens Fidelity Corporation** (NASDAQ), Kentucky's largest bank holding company until its acquisition by **PNC Financial** (NYSE) in 1986. Following the acquisition Thayer was elected Executive Vice President of PNC (1987-1989) with management responsibility for finance, merger and acquisitions, investor relations, strategic planning, and PNC's capital markets subsidiary, serving as Chairman of **PNC Securities Corp.**

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