

DFW HR ROUNDTABLE

MARCH 9, 2010

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HR Challenges in Light of the Financial Crisis: Surviving and Thriving in 2010

What we'll discuss today:

Executive compensation trends:

- Long-term performance plans

- Equity awards - types, terms and costs

Employee benefit plan trends:

- Group medical plans: design and cost

For public companies: points to consider when preparing your 2010 proxy statement

HR Challenges: the Big Picture

HR managers oversee varied functions, each with technical requirements and hidden pitfalls!

- Hiring and firing – discrimination, EEOC, litigation
- ERISA and employee benefits – costs, complexity, ERISA fiduciary risks, IRS and DOL investigations
- Executive compensation – designing long-term incentives, financial accounting aspects, SEC matters
- Other?

Executive Compensation Trends

Public outcry over the level of executive pay

Compensation committees in the crosshairs

- The SEC disclosure rules for executive compensation
- Explaining not only what is paid to executives, but WHY?

Performance-based pay plans

- Variable pay as a major component of the total package
- “Pay at Risk” as a new component

Executive Compensation Trends

Key lessons arising from the financial “melt-down” of 2008-2009:

- Short-term incentives can create hidden risks.
- New SEC regulations require boards to monitor these risks – at all levels, not just the executive suite.
- How to identify risk factors tied to compensation?
 - Involve HR and risk managers up-front in performing a risk assessment.
 - Look at bonus programs at all levels of the organization.

Focusing on Long-Term Performance

- Use incentive plan design to mitigate risk factors tied to compensation:
 - Require “clawbacks” where later financial statement earnings restatements occur.
 - Establish minimum stock ownership requirements and holding periods.
 - These are often tied to a multiple of base pay.

Equity Plan Awards – Types, terms and costs

Avoid “pay inflation” – consider the value of shares awarded vs. the number of shares in determining award levels.

Stock options vs. Restricted stock units?

- ✓ Downside to options: “underwater” options – an “attrition tool” – not a retention tool
- ✓ Consider the ratio of options to “full value” grants – 3 to 1?
- ✓ Determine the financial accounting cost of the awards, and consider how they appear in the proxy’s summary compensation table.

Equity Plan Awards in Private Companies

- Private equity investors recognize the importance of long-term incentives tied to equity participation— either actual stock awards or “synthetic” equity awards.
- ✓ Stock awards often are payable only upon a liquidity event. This “golden handcuff” aligns the executives with the investors’ long-term goals.
 - ✓ Synthetic equity awards are favored – stock appreciation rights payable in stock or cash, for example.
 - ✓ Consider the financial accounting impact of synthetic equity – they are treated as variable awards rather than equity awards.

Trends and Issues in Employee Benefit Plans

Group medical plans

- escalating costs
- COBRA subsidies
- wellness programs – designing incentives to manage chronic illnesses and reduce claims

401(k) and other retirement plans

- Cutting back – or eliminating the match?
- Automatic enrollment plans

Issues in the 2010 Proxy Season

Executive compensation disclosure rules have changed again!

- ✓ Risk assessments
- ✓ Stock awards in the summary comp. table
- ✓ Issues in the use of compensation consultants

Recurring issues:

- ✓ The “Compensation Disclosure and Analysis”
- ✓ The role of RiskMetrics in influencing the vote of institutional shareholders
- ✓ The future of “say on pay” votes – 2011?