



*New York Stock Exchange Governance Series
Compensation Committee Boot Camp ■ February 9, 2016*

Seven Habits of a Highly Effective Compensation Committee

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Meridian Compensation Partners, LLC.

Panelists

Coleman Peterson—President/CEO of Hollis Enterprises, LLC; retired Executive Vice President of People for Walmart Stores, Inc; Chairman of the Compensation Committee of J.B. Hunt Transportation, Build-A-Bear Workshop, and Cracker Barrel Old Country Stores, Inc.

Rich Floersch—Retired Chief Human Resources Officer for McDonald's and former Vice Chair of HR Policy Assn.; current Senior Strategic Advisor to Center on Executive Compensation and Healthcare Transformation Alliance (HR Policy Assn.)

Bob Romanchek—Partner and Senior Consultant, Meridian Compensation Partners, LLC

Topic of Discussion for Our Panel

Seven Habits of a Highly Effective
Compensation Committee

Seven Habits of a Highly Effective Compensation Committee

1. The Committee Itself

- Areas of Knowledge and Expertise for Members
 - Industry and Company Knowledge
 - Executive Compensation and Related Governance Expertise
 - Financial Expertise
 - Cyber Security Knowledge
- Personal Attributes
 - Age, Tenure and Independence
 - Personality and Ability to “Dialogue”
 - Current and/or Retired CEOs Only(?)
 - Candidate for Board Leadership or Key Executive Succession
- Diversity of Motivations, Ideas and “Agendas”

Seven Habits of a Highly Effective Compensation Committee

2. Operations: Meeting Cycle and Process

- Formalized annual calendar with known topics identified for each meeting
- Extended meeting once a year, not during board meeting cycle, to question everything
- Determination of who should be at each meeting—Level of involvement of management
- Process for the development, review and dissemination of meeting materials
- Executive session(s) at the start and/or at the end of each meeting
- Post meeting activities: meeting minutes, SEC filings and future agenda modifications
- Shareholder outreach: timing, frequency and “staffing”
- Ongoing director education
- Formal evaluations of the Committee, of individual members and of the consultant
- Establishment of consultant independence, projects and budgets
- Interactions with the Board and Other Committees (e.g., Audit Committee)

Seven Habits of a Highly Effective Compensation Committee

3., 4., and 5. Committee Decision Making

- Clarity concerning duties and responsibilities, as articulated in the Compensation Committee Charter (i.e., what needs to go to the full Board for approval?)
- An art and a science—making informed decisions after consideration of sufficient data and metrics, and understanding the tax, accounting, disclosure and other statutory implications
- Concept of “system first” or “walk a mile in other’s moccasins”
 - Resist the temptation to adopt “vanilla” program designs
 - Doing what is right for the organization
- Consider the linkage between:
 - Business strategy and incentive compensation goals
 - Individual pay and company/individual performance
 - The unique facts and circumstances of your situation versus what others are doing
- Consideration of risk, particularly within the design of the incentive pay programs
- Deal “appropriately” with proxy advisory firms and their related demands

Seven Habits of a Highly Effective Compensation Committee

6. Materials: What materials should be required?

- Formally stated executive compensation philosophy (narrative and pay percentile goals)
- Custom peer group and related statistics
- External benchmarking (“value”) pay data for each executive officer position and for outside directors
- Short- and long-term incentive plan design practices and trends and updates on projected company payouts
- Periodic review of ancillary programs: SERPs and deferred compensation plans, general and change-in-control severance programs, supplemental insurance benefits and perquisites
- Stock ownership (and stock retention) policy design and compliance for executives and outside directors
- IRC Section 162(m) “performance-based” exemption materials
- Compensation Committee Charter review
- Risk assessment analysis
- CD&A drafts, along with the related tables
- Run rate and dilution analysis, and share pool management
- “Say on Pay” considerations
- Governance policy and statutory information: For example, clawbacks, anti-hedging and anti-pledging policies, CEO pay ratio and pay-for-performance analysis
- Tally sheets (including severance payouts), wealth creation projections and realized/realizable pay analysis
- Proxy advisory reports which analyze and opine on the company’s executive compensation program

Seven Habits of a Highly Effective Compensation Committee

7. Use of a Compensation Consultant

- Providing a current “lay of the land” internally and externally
- Keeping the Committee abreast of trends and breaking developments
- Bringing an appreciation for technical rules and accounting implications
- Assisting with the process of:
 - Bridging any gap between management and the Committee
 - Making informed business judgments
- Candor is critical...not afraid to disagree with the Committee or management
- Not the final decision maker!

The consultant should be the Committee's
trusted advisor