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**Setting Performance Criteria and Managing Equity  
Awards in the face of Market Volatility**

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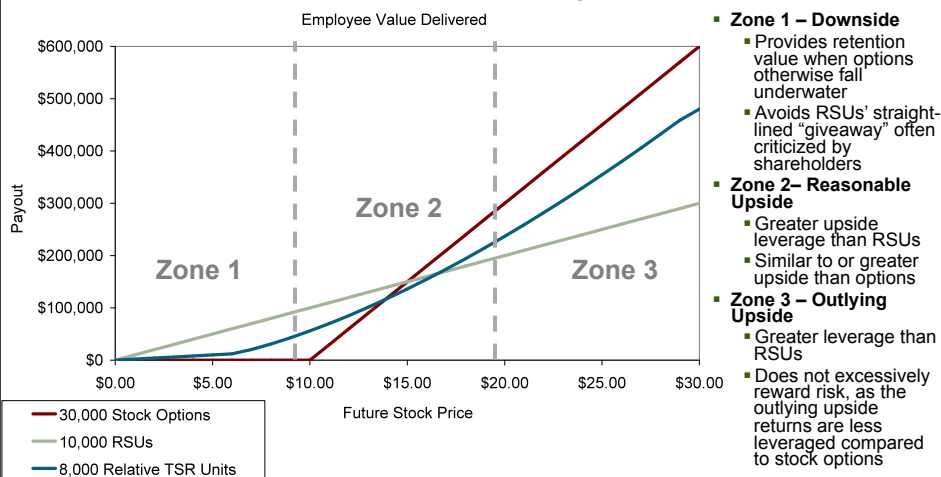


## What are Relative Total Shareholder Return (TSR) Plans?

- Grant of stock units such that the number of shares earned is based on stock price performance **vs.** a peer group or index

Sample Relative TSR Award Payout Schedule	Awards Earned Upon Vesting
<b>MAXIMUM: 33% Above Comparator Group Median</b>	<b>200%</b>
For every 1% in above Comparator Group median, <b>payouts increase by 3% of target</b>	↑
Comparator Group Median TSR + 1%	103%
<b>TARGET: Comparator Group Median TSR</b>	<b>100%</b>
Comparator Group Median TSR - 1%	97%
For every 1% below Comparator Group median, <b>payouts decrease by 3% of target</b>	↓
<b>MINIMUM: 25% Below Comparator Group Median</b>	<b>25%</b>



















## Relative TSR Delivers an Efficient Payout Curve





<sup>1</sup> Number of shares of each vehicle compared assumes equal grant date fair value with options valued at 30% of face value, RSUs at 100% and TSR at 125%. TSR payout also assumes peer group annualized return of 10%.

### In-Depth Historic Research: Relative TSR Would Have Performed Strongly<sup>1</sup>

- Hypothetical comparisons for 2000-2005
- All S&P 100 companies studied (each company individually analyzed versus remaining 99)
- Two metrics assessed:
  - Compensation Delivery (employee perspective) – calculates the amount of value delivered to the award recipient
  - Expense Efficiency (company perspective) – calculates the ratio of compensation delivered to the employee versus Topic 718/SFAS123(R) expense


	Compensation Delivery			Expense Efficiency		
	Median Amount	Standard Deviation (variability)	Overall Relative Rank	Median Amount	Standard Deviation (variability)	Overall Relative Rank
Stock Options						
Restricted Stock						
Relative TSR						

 Best →  Worst

<sup>1</sup> Review Radford research on [www.RelativeTSR.com](http://www.RelativeTSR.com)

### Comparator Group Selection is a Challenge

- More than one peer group may apply to Relative TSR design

	Smaller Peer Group of Direct Competitors	Broader Market Index	Comments
1) Who gets an award?			<ul style="list-style-type: none"> <li>▪ Focus on direct labor market</li> <li>▪ Industry/size/maturity</li> <li>▪ Geographic location</li> </ul>
2) What size is the award?			
3) How to measure performance?			<ul style="list-style-type: none"> <li>▪ Investor portfolio perspective</li> <li>▪ Consistency with CD&amp;A disclosure</li> <li>▪ Broad indices made possible by ready availability of daily stock price data</li> <li>▪ Combination of both small &amp; broad</li> </ul>

- According to Radford's research of over 300 publicly disclosed Relative TSR programs
  - 62% use a custom-defined peer group
  - 46% use a broad index (S&P 500 most popular)

### Can Relative TSR Work for Broad-Based Employees?

- Vast majority of current Relative TSR programs are reserved for senior executives
- However, Relative TSR may be the most viable way to push performance LTI deeper into organizations
  - **Cannot fall underwater** like traditional stock options (payout is reduced if the stock price falls faster than comparators' in a down market, however, a minimum value can be preserved for retention purposes)
  - Provides **strong pay-for-performance linkage** through the requirement to match or beat comparator companies' stock returns
  - Does not depend on ability to **establish, track or communicate** long-term operational or financial goals
  - Uses publicly-available daily stock price closes – **entirely transparent metrics** for participants and shareholders alike, simplifying administration and **removing any subjectivity** in measuring performance
  - Carries **favorable fixed grant date accounting** which does not require cumulative expense changes based on the number of shares that are actually earned, therefore making expense recognition level and predictable

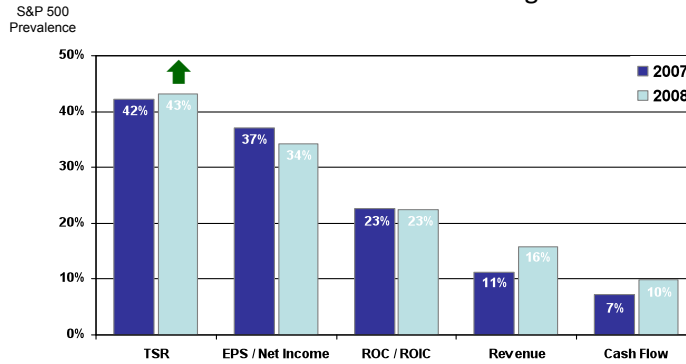
### Relative TSR is Gaining Traction

- Radford tracks Relative TSR programs at US companies as disclosed in SEC filings
  - More than 315 since 2005
  - More than 210 since 2008 alone
- Predominant metric used for performance share plans in the UK and Australia
- View Radford research on: [www.RelativeTSR.com](http://www.RelativeTSR.com)



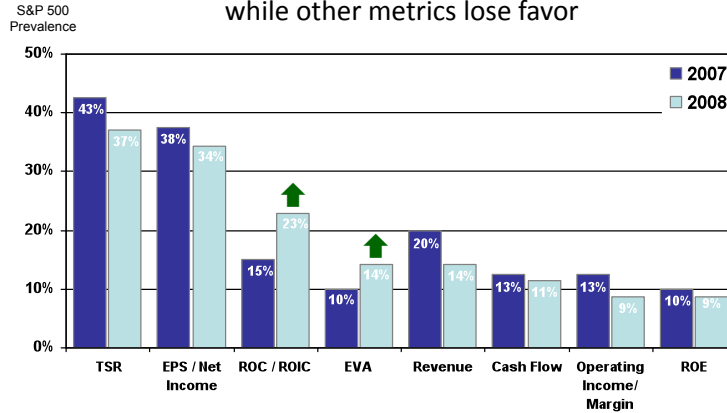
### Performance Equity

TSR solidifies position as #1 metric,  
but revenue and cash flow grow

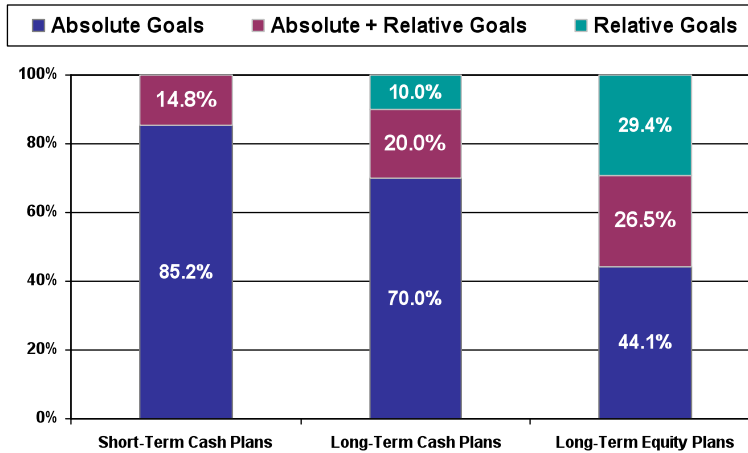


### Long-Term Cash

ROC and EVA make big gains  
while other metrics lose favor



### S&P 500 Goal Measurements



### TSR Disclosure Examples

- **Gilead Sciences** - *DEF 14A filed on May 6, 2009*  
Calculates performance share payout according to Relative TSR and Relative Revenue Growth
- **Pfizer** - *PRE 14A filed on March 2, 2010*  
Awards TSR Units (renamed SARs) which deliver value based on TSR over 5 years
- **Disney** - *DEF 14A filed on March 10, 2010*  
Payouts based on relative TSR metric scale and then if EPS is above or below the 50<sup>th</sup> percentile of the S&P 500



## Questions?

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