



**2010 Proxy Compensation
Discussion and Analysis Scorecard**

Towers Watson Compensation Discussion and Analysis Scorecard

The Securities and Exchange Commission's (SEC) proxy disclosure rules, first effective for 2007 proxy filings, have recently been amended to require additional disclosures to be prepared by companies for their 2010 proxies. Not only do these rules require the company to draft a Compensation Discussion and Analysis (CD&A), corporate management may be required to provide a disclosure of whether compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the company.

In drafting the CD&A, companies should follow guiding principles issued as part of the regulations amplified by interpretive guidance issued by the SEC Staff, which require disclosures of information that is material to shareholders' understanding of the company's compensation programs.

Because compensation committees are required to attest to the CD&A drafted by management, Towers Watson has created and continues to update a Compensation Discussion and Analysis Scorecard that permits directors to review draft CD&As and evaluate whether the information included would be of value to shareholders. Due to the nature of the SEC rules, this scorecard will require subjective determinations to be made by directors in rating the elements of the CD&A. Nonetheless, we believe the directors that use this tool will be better able to discuss with management the issues that may need more vibrant disclosure.

This year, we have added questions addressing the issue of how compensation relates to corporate risk-taking. Although the Board need not sign off on this disclosure itself, the new SEC rules require a disclosure of the Board's involvement in the company's risk oversight process. Compensation committees also must consider how the risk question advises their pay decisions for Named Executive Officers.

Relevant CD&A Element	Rating	Qualitative Guidelines
<p>1. Overall Clarity and Ease of Use</p> <ul style="list-style-type: none"> • An executive summary-style introduction that prefaces the body of the CD&A and provides an overview of how the company performed and how compensation paid was commensurate with that performance • Tables to help clarify complex ideas, particularly those involving performance goals • Plain English descriptions • A complete narrative that requires minimum cross-referencing (with the exception of cross-referencing to tables) • No boilerplate discussions from prior year proxy as language should address issues material to understanding current year pay 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • An executive summary that encapsulates much of what will follow and sets the stage for upcoming disclosures • An explanation within the executive summary that helps demonstrate how the company “pays for performance” • Tabular disclosures that save time and add clarity instead of long paragraphs that contain excessive data for multiple named executive officers (NEOs) • Omit freestanding, boilerplate discussions of pay philosophies or design goals that fail to directly reference how pay for the proxy year accomplishes those goals • Minimize generalized discussions of the pay setting process in favor of specific details on how and why pay was set for the current proxy year
<p>2. Objectives and Disclosure of Performance Goals</p> <ul style="list-style-type: none"> • Objectives of the company’s compensation programs followed closely with details of how these programs accomplished those goals for the current year • Individual or corporate behavior the program is designed to reward • Actual performance goals for the annual and long-term incentive (LTI) plan and a detailed description of the metrics used <ul style="list-style-type: none"> ○ If targets are not disclosed due to confidentiality, a discussion of the likelihood the targets will be met and the method by which that estimate was determined • Factors considered in increasing or decreasing compensation materially 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • The actual performance goals where such have been pre-established (unless the goals are confidential and the difficulty of attaining goals is disclosed) • How programs are focused on company’s unique business goals • A vibrant and expansive discussion that describes how the program was designed to pay for performance and sets the stage for later discussions of how programs actually rewarded performance • Discussion of factors considered in increasing or decreasing pay for the year and an appropriate discussion of individual compensation elements • In depth discussion of one-time compensation grants necessitated by the recent market downturn with a similar discussion of any pay windfalls realized due to a rebound in share values

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Ratings

- 1 = Material elements appear to be missing
- 2 = Adequate details with less than adequate explanations
- 3 = Slightly better than adequate; attempt made at explanations, but logic may be lacking or descriptions are confusing
- 4 = Very good disclosure of most material elements; extensive details, although there may be gaps in reasoning or less clarity than might be ideal
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<p>3. Benchmarking</p> <ul style="list-style-type: none"> • Extent to which <i>total</i> compensation is benchmarked to peers and/or survey data (should include the definition of total compensation). Explain the targeted market percentile for total compensation versus actual pay. If there are differences among NEOs, explain • Extent to which <i>Individual</i> compensation components are benchmarked to peers and/or survey data, Explain the targeted percentile for each element of compensation versus actual pay. If there are differences among NEOs, explain • Peers and surveys used and the reasons for selecting the peers/surveys <ul style="list-style-type: none"> ○ Reasons why peers/surveys are used or might vary for different compensation elements, if applicable • Extent of management's and compensation committee's involvement in the peer group selection process • Reasons behind any changes made to the peer group from the prior year • Where peer data are used as one of many factors considered in setting pay, a detailed explanation of other factors used 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • Affirmative statements regarding management's, the consultant's and the compensation committee's involvement in the peer group selection process – in essence, a description of how the process works • A listing of the peer companies and the names of the surveys used • When peer groups change, a discussion of the reasons for doing so and analysis to show that the change did not result in a substantial up tick in compensation levels (i.e., peer group selection did not include “cherry picking”) • Where peer data analysis is only one factor considered in the pay setting process, a detailed explanation of other factors used. Strong consideration should be given to detailing what were the targeted pay percentiles versus actual pay even though this was not the predominant factor used in setting pay opportunity
<p>4. Discussion of Pay Mix</p> <ul style="list-style-type: none"> • Policies for allocating between long-term and currently paid out compensation • Policies for allocating between cash and non-cash compensation, and among different forms of non-cash compensation • Discuss the reasons for differences among NEOs • Extent to which allocation of pay elements may have been altered for NEOs to address excessive risk taking 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • A discussion of how the pay mix helps facilitate the compensation objectives and goals even if the company does not have a formal policy for these allocations • Tabular representation of pay mix that can easily be understood • Where risk-taking was considered in the compensation committee's pay setting process, a discussion of changes made to address risk taking and the reasoning behind those changes. If risk-taking was considered and no changes were made, the reasons for keeping the existing compensation structure

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<p>5. Actual Results and “Pay for Performance”</p> <ul style="list-style-type: none"> • How variable compensation programs actually rewarded executives for missing, attaining or exceeding the plans’ performance targets • How the metrics for variable compensation programs helped to drive the performance deemed appropriate to the business • Comparison to peers of variable compensation earned compared to peers that includes a consideration of company and peer corporate performance • Changes made to pay programs to create better “pay-for-performance” alignment • Describe or illustrate maximums or cap in on variable compensation programs 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • This discussion separately as an Executive Summary prefacing the CD&A, following the discussion of the pay program objectives or in the individual discussion of the pay components • Vibrant discussion of how the pay provided for the proxy year actually tied to the targets and performance metrics and how those compared to peers • Minimal discussion of how the company compared to peers on metrics not measured nor rewarded under the pay programs
<p>6. Salary</p> <ul style="list-style-type: none"> • The process for determining salary for each NEO • Factors considered in this determination and the extent to which salary was increased or decreased from the prior year • NEO involvement in the process, including selection of peer group and/or use of survey data • Relationship between salary and other elements of variable comp 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • A comprehensive yet economical discussion of the salary-setting process especially where multiples of salary are used to measure the annual incentive compensation opportunity • How the peers are selected and who is involved in the process, where salary-setting is driven largely by peer comparisons or survey data

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<p>7. Annual Incentive Compensation</p> <ul style="list-style-type: none"> • How compensation elements are structured and implemented to achieve company-wide and individual performance goals • How the company performed for the proxy year in relation to those goals • Whether discretion can be exercised to award compensation absent goal attainment or to reduce or increase the size of any award or payout; whether plan is designed to meet 162(m) • Whether discretion was applied to one or more specified NEOs for the fiscal year and the rationale for doing so • Extent to which, and reasons why, deferrals are permitted/required so that payments are made in later years; how earnings are credited and matching contributions are provided with rationale • Changes made to annual compensation levels, goals and metrics from the prior year and the reasons for those changes, • NEO involvement in the process, especially for plan changes, including selection of peer group and/or use of survey data • If considered, the extent to which the compensation committee reviewed and understood the extent to which the annual plan could encourage risk-taking 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • A comprehensive yet concise discussion of the reasons why goals were set at existing levels, why each metric was selected and the specific performance the plan is seeking from the company for the year • Tabular descriptions of actual targets and metrics, with a column showing goals attained and actual payout • A vibrant discussion of how likely it is the goals will be attained and how this likelihood was determined. While this discussion is required in situations where targets are not disclosed for confidentiality concerns, the best CD&As provide context on whether the goals set are attainable and realistic • Reasons why discretion has been exercised to adjust pay, even though such disclosure is not required by 162(m). This discussion is relevant to understanding pay decisions, just as are the goals selected under an objectively measured plan • How annual incentive compensation payments corresponded to corporate performance for the year. This discussion will reinforce how the program is designed to pay, and actually pays, for performance
<p>8. Long-Term Incentive Compensation</p> <ul style="list-style-type: none"> • Both for grant made for the year and for LTI settled during the year, a description of the basis for allocating long-term compensation to each type of equity and cash award <ul style="list-style-type: none"> ○ Relationship of the award to corporate and NEO goals, including a detailed description of each NEO's targets and metrics ○ Reason for selection of equity vehicles and performance/time-based vesting, and management's exposure to downside equity performance risk 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • Tabular descriptions of targets and metrics with a column showing actual payout • A vibrant discussion of how likely it is the goals will be attained and how this likelihood was determined. This discussion should not be limited just to situations where disclosure is required if targets are not disclosed for confidentiality concerns • How the grant of LTIP opportunities correspond to prior year performance, existing outstanding equity opportunities, forecast SERP and pension plan accruals and other potential LTIP pay elements

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<p>8. Long-Term Incentive Compensation (continued)</p> <ul style="list-style-type: none"> ○ Correlation between cost to company and expected benefits to company, if considered • How the company performed over the LTI measurement period in relation to those goals that triggered payout or vesting during the proxy year • Whether discretion was applied to one or more specified NEOs for LTIP payouts for the fiscal year and the rationale for having exercised that discretion; whether the plan is designed to meet 162(m) • Extent to which, and reasons why, deferrals are permitted for payment in later years; how earnings are credited and matching contributions provided with rationale • Changes made to LTI levels, goals and metrics from prior years and the reasons for those changes • For equity-based compensation, how the determination is made for the award grant date and for grant levels • NEO involvement in the process, especially for plan changes, including selection of peer group and/or use of survey data • The extent to which the compensation committee reviewed and understood the extent to which the LTI program and the LTI mix could cause NEOs to take excessive risks 		<ul style="list-style-type: none"> • A discussion about how the LTIP program is designed to and has actually accomplished the goal of pay for performance through empirical analysis of payments made compared to both its own corporate performance and that of its peers
<p>9. Pensions and SERPs</p> <ul style="list-style-type: none"> • The basis for providing an executive pension that might be in excess of the tax code imposed limits for qualified pensions • How the value of the pension is considered versus other elements of total compensation in making pay decisions for the year • How the value of the pension compares to that of peers when normalized for the compensation earned and years of service 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • A discussion of the influence the value of an executive pension has on other total compensation pay decisions • An explanation of why total pay mix would have a higher percentage of “fixed” pay (salary, executive pension) rather than more “at risk” pay (annual incentives, cash LTIP, equity-based LTIPs) • A market comparison of pension values to peers normalized based on compensation and years of service

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<p>10. Change-in-Control (CIC)/Severance Provisions</p> <ul style="list-style-type: none"> • The basis for selecting particular events as triggering payment at, following or in connection with termination or CIC (e.g., the rationale for providing a single trigger for payment in the event of CIC) • Extent to which plan designs were benchmarked to peers or industry practices • Whether the compensation committee considered the magnitude of payments at each potential triggering event in making its compensation-setting decisions • Decisions/changes made regarding changes to the magnitude of these payments and the reasons for doing so • If gross-ups are provided, a discussion of how the compensation committee considered the costs of providing the benefit against the potential benefit to shareholders 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • Rationale for the payments that will be disclosed in the Termination Scenario section of the tabular disclosures • Details on the activities the compensation committee undertook to understand the magnitude of these payments and a discussion of their reasoning for making changes in the programs or maintaining them at current levels • A discussion indicating the compensation committee understood the total walk-away value, rather than simply the incremental value received due to a change in control/severance triggering event.
<p>11. Accounting and Tax Considerations</p> <ul style="list-style-type: none"> • The impact of accounting and tax treatments of a form of compensation 		<p>The best CD&As include:</p> <ul style="list-style-type: none"> • An interwoven discussion of these issues: <ul style="list-style-type: none"> ○ 162(m) and its implications in the appropriate annual or long-term incentive compensation section rather than including the same boilerplate from prior year proxies in a stand-alone section ○ FAS 123R and its impact in the Pay Mix or the LTIP discussion, if it influenced the decision to convert from stock options to another vehicle ○ 280G/4999 and its how its application to change in control and termination payments advised decisions regarding amount of severance to be paid, accelerated vesting of equity grants and accelerate payment of annual or long-term compensation

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<p>12. Role of Consultants¹</p> <ul style="list-style-type: none"> • The role of compensation consultants in determining or recommending the amount and form of executive and director compensation • The names of the consultants, stating: <ul style="list-style-type: none"> ○ If they are engaged directly by the compensation committee ○ The nature and scope of their assignment ○ The material elements of the instructions or directions given to the consultants with respect to the performance of their duties under the engagement • Fees for the compensation consultant and for its firm, but only in the following circumstances: <ul style="list-style-type: none"> ○ If the consultant is engaged by the compensation committee AND the consultant's firm provides > \$120K in other services to management ○ The consultant is engaged by management, the compensation committee does not have its own consultant AND the consultant's firm provides > \$120K in other services to management 		<p>The best disclosures include:</p> <ul style="list-style-type: none"> • A discussion that is interwoven into the selection of the peer groups, how the performance goals and metrics are developed, and what percentiles versus peers are being targeted by the compensation program • CEO involvement in this process also must be disclosed • When fee disclosure is required, an additional discussion detailing the following: <ul style="list-style-type: none"> ○ The process for selecting compensation consultants and a discussion of how the company ensures the consultant's ability to exercise independent judgment and provide objective advice and recommendations that is not influenced by the company's management. ○ Any criteria used for the selection of the compensation consultant to ensure the consultant has the depth of expertise and breadth of experience to provide quality service and sufficient resources to perform the work requested in the timeframe required, and is free from conflicts of interest that might compromise the consultant's ability to provide objective advice and recommendations. ○ Any procedures that the company has in place to ensure that the compensation consultant's advice to the compensation committee or committee performing similar functions is and remains objective and is not influenced by the company's management, including any written assurances provided by the consultant to the company that these procedures continue to be in place and were followed during the last completed fiscal year.

¹ Note: While the disclosure of the consultant's role and fees paid are not technically required part of the CD&A, we've included this section in the CDA Checklist because this disclosure is so closely tied to the discussion of executive pay.

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The following are additional provisions that should be discussed only if relevant for the company. Since not all companies would include a discussion of these elements, no rating should be provided.

<p>13. Clawbacks</p> <ul style="list-style-type: none"> • Policies or decisions regarding adjustment or recovery of awards or payments if the relevant company's performance measures are restated or otherwise adjusted in a manner that would reduce the size of the award or payment 		<ul style="list-style-type: none"> • Clawbacks are not required by law, although many companies are considering adopting such policies if they have not done so already.
<p>14. Stock Ownership Requirements</p> <ul style="list-style-type: none"> • Policies that require NEOs to attain a certain level of stock ownership after a period of employment 		<ul style="list-style-type: none"> • Stock ownership requirements are not required, although they are becoming a prevalent practice.
<p>15. Accumulated Wealth</p> <ul style="list-style-type: none"> • How compensation or amounts realizable from previous compensation affect other elements of compensation <ul style="list-style-type: none"> ○ How gains from prior option or stock awards are considered in setting retirement benefits ○ How previously realized equity affects current year decisions on new grant levels 		<ul style="list-style-type: none"> • Pay critics have suggested companies should consider all elements of previously earned compensation in an "apples-to-apples" comparison when making current year grants.