Business Roundtable

Protecting Investors and Fostering Efficient Markets
A Review of the SEC Agenda:
Executive Compensation

Before the House Financial Services Committee

May 25, 2006

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Business Roundtable

Written Testimony and
Comments for the Record

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Introduction

Business Roundtable www.businessroundtable.org is an association of chief executive officers of leading U.S. companies with over $4.5 trillion in annual revenues and more than 10 million employees. Our companies comprise nearly a third of the total value of the U.S. stock market and represent nearly a third of all corporate income taxes paid to the federal government. Collectively, they returned more than $110 billion in dividends to shareholders and the economy in 2005.

Roundtable companies give more than $7 billion a year in combined charitable contributions, representing nearly 60 percent of total corporate giving. They are technology innovation leaders, with $86 billion in annual research and development spending – nearly half of the total private R&D spending in the U.S.

We have been leaders in the area of Corporate Governance and we supported the Sarbanes-Oxley reforms in 2002 because we knew investor trust and confidence had to be restored to the marketplace. Also in 2002, we first published *Principles of Corporate Governance*. http://www.businessroundtable.org/pdf/CorporateGovPrinciples.pdf and the following year we established the Business Roundtable Institute for Corporate Ethics at the Darden Business School at the University of Virginia. In 2003 we published *Executive Compensation, Principles and Commentary*. http://www.businessroundtable.org/pdf/ExecutiveCompensationPrinciples.pdf

Our principles on executive compensation call for executive compensation to be closely aligned with the long-term interests of shareholders, and to include significant performance-based criteria. Furthermore, board compensation committees should be composed of entirely independent directors, and they should require executives to build and maintain significant equity investment in the corporation. Finally, companies should provide complete, understandable, and timely disclosure of compensation packages, and the SEC proposal is consistent with our recommendation.

With respect to the SEC proposed rule on compensation disclosures, we support the proposal because we believe in transparency and providing shareholders with useful information. In our comment letter to the SEC (attached), we suggested ways to prevent misleading information from being disclosed with respect to stock options, and we also pointed out that any new requirements should not disclose proprietary information about a company's product or client development plans that could hinder competitiveness.

The Current Debate

In the current debate on executive compensation, a key question is how to define performance. We believe there has been too much emphasis on short-term stock gains, and not enough recognition that other performance-based criteria are applied. It is our belief that determining this performance-based criteria, and setting overall executive compensation, should properly remain with Boards and compensation committees as they are in the best position to set the standards and evaluate the performance of executives.

Concerning recent coverage of CEO compensation, there has been a great deal of misleading information promoted by critics and reported in the media. There are over 15,000 publicly traded companies in the United States – and if one believed even a few of the stories written you would think all CEOs make tens, if not hundreds, of millions of dollars, each and every year. This is not the case, and we believe this type of sensationalism is damaging to the debate, our corporations, and our shareholders.

Compensation Trends

This is not the first time the issue of CEO pay has attracted so much attention. In the early 1980's when stocks were underperforming, activists sought to limit the salaries of CEOs and tie their pay to the performance of the company. Congress obliged by placing tax consequences on annual salaries above $1 million, and CEOs were given stock options as incentive to perform. As the market has increased dramatically in the last 15 years, so has CEO pay. Reformers got exactly the system they wanted, but now, ironically, many are critical of the results and they are crying foul. They claim that CEO pay exceeds company performance.

In fact, the data does not support this. Research using the Mercer 350 database shows that over a ten year period from 1995 -2005, median total compensation for CEOs has increased 9.6%, while the market cap has increased 8.8%, and total shareholder return has increased 12.7% (chart attached). These numbers show a direct correlation between levels of pay, market increase, and shareholder return. This trend was confirmed by a recent article in the *The New York Times* (attached) that cited an New York University/Massachusetts Institute of Technology study showing a direct correlation between CEO compensation and the value of the top 500 companies between 1980 and 2003.

We have identified two flaws that contribute to the erroneous figures that inflame this debate. First, many of the statistics cited are *averages, not medians*. As we all know, these are misleading because of extreme instances of the pay scale – one outlier skews the average for all. The second involves how stock options are counted. When options are exercised, they often represent a decade worth of accumulated stock; and in the current debate they are characterized as a single, annual amount of compensation. Furthermore, when counting options we should use the amount when granted, and not the realized gains when exercised. We should also point out that some of the pension payments highlighted in the media represent 30 years or more of service to the company, and deferred compensation payments also represent amounts CEOs have earned over a lengthy period.

We all agree that shareholders provide capital and in effect own companies, but the key distinction is recognizing that they don't run them. Shareholders invest in companies, profit from their growth, and in exchange for not having any liability for company actions, decisionmaking is necessarily left to Boards and CEOs.

The U.S. corporate model has been the envy of the world by providing centuries of growth, jobs, and return for investors. In our view, legislative proposals (such as H.R. 4291) calling for shareholder approval of compensation plans is unwise and ultimately unworkable.

If we adopted a system where small groups of activist shareholders used the process to politicize corporate decisionmaking, the consequences could very well be destabilizing. Some activist groups who disagree with corporate positions on Social Security reform, health care reform, and free trade policies, for example, seek to "super-democratize" corporations to the point of having shareholders remove directors, choose CEOs, and determine company policies and levels of pay. This is a slippery slope that should be avoided - if this model were applied to CEOs, then by extension the public would determine salaries for news anchors, movie stars, athletes and elected officials.

Support for the Current System

Despite the rhetoric from critics of the current system, we know of no instance where a Board is willing to pay a CEO more than they are worth, or more than the market price bears.

The performance metrics applied are not limited to stock price – they also include annual profits, job creation, restructuring plans, remaining competitive in the global marketplace, and subjective factors such as company community activities, crisis response efforts, and leadership.

One telling statistic about CEO accountability comes from our own members: In 1985 the average CEO tenure was over 8 years, today it is 4 ½ years. Many CEOs hired today are expected to produce in a short period of time – and while they are well paid if successful, they are replaced if they fail. *The Washington Post* recently cited a Booz Allen study that shows that CEO turnover in 2005 was above 15%, the highest level in a decade (article attached).

We cannot state what the appropriate level of CEO pay should be, nor can we answer the question "How much is enough?" That would require a broader social debate on wealth in our society. But within the context of corporate governance, setting CEO pay is a function of the Board of Directors, and should remain that way. We do not believe in encouraging an environment where companies become gridlocked while executives pander to numerous shareholder constituencies, and companies would operate with the same efficiency as Congress. It is important to remember that these are <u>*private corporations*</u> designed to make a profit – and public investment in them is <u>*voluntary*</u>. We should not confuse the term "Public Companies" with the public sector.

The key to this process is to give investors the information they need to make informed decisions to buy, hold, or sell their investments. That is the rationale behind the SEC initiative on compensation disclosures, and one of the reasons why we support it.

Today's CEOs recognize that as leaders of global companies, they have tremendous economic and social responsibility. That's why we reference the $110 billion in annual dividends paid to shareholders, and the $7 billion given annually to charity. Following Hurricane Katrina, *The Wall Street Journal* referred to industry's philanthropic effort as a "Private FEMA" (article attached).

In conclusion, we are sensitive to extreme cases about CEO compensation reported in the media, and we continue to develop and promote best practices for our members to follow. Independent boards and shareholders will deal with extreme cases and we should not ruin our free market system because of a few rogues. We strongly believe that the current system has worked well, and should not be changed. By any historical measure, shareholders have enjoyed enormous returns by investing in the market, and that is the ultimate incentive for Boards and CEOs to perform well.

Thank you for your consideration and if you have any questions, please feel free to call on me.

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BY EMAIL

April 10, 2006

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F St., NE
Washington, DC 20549-9303

Re: File No. S7-03-06, Release No. 33-8655, 34-53185
Executive Compensation and Related Party Disclosure

Dear Ms. Morris:

This letter is submitted on behalf of Business Roundtable (www.businessroundtable.org), an association of chief executive officers of leading U.S. companies with over $4.5 trillion in annual revenues and more than 10 million employees. Member companies comprise nearly a third of the total value of the U.S. stock market and represent nearly a third of all corporate income taxes paid to the federal government. Collectively, they returned more than $98 billion in dividends to shareholders and the economy in 2004. Roundtable companies give more than $7 billion a year in combined charitable contributions, representing nearly 60 percent of total corporate giving. They are technology innovation leaders, with $86 billion in annual research and development spending – nearly half of the total private R&D spending in the U.S.

The Roundtable supports the Securities and Exchange Commission's efforts to "provide investors with a clearer and more complete picture of compensation to principal executive officers, principal financial officers, the other highest paid executive officers and directors." In this regard, the Roundtable has issued *Principles of Corporate Governance* (2005) and *Executive Compensation: Principles and Commentary* (2003), both of which endorse providing shareholders with meaningful and understandable information about a company's executive compensation practices. We appreciate the opportunity to provide our views on the Commission's proposed amendments to the disclosure requirements for executive and director compensation, related party transactions, director independence, and other corporate governance matters and disclosure requirements (the "Proposed Rules"). As discussed in more detail below, we believe that there are some aspects of the Proposed Rules that can be improved including, among other things, eliminating the proposed disclosure requirement concerning non-executive officers and revising the proposed disclosure requirements concerning total compensation, deferred compensation, retirement and change in control and corporate governance.

I. Compensation Disclosure & Analysis

The Roundtable supports the Commission's efforts to enhance disclosures about the material elements of companies' compensation objectives and policies for their named executive officers ("NEOs"). In the past few years, many compensation committees have sought to provide more meaningful disclosures in their compensation committee reports. The Commission's emphasis on, and the additional detail proposed for, the Compensation Disclosure & Analysis will further this process.

We believe, however, that such disclosure should continue to be included in a report of a company's compensation committee. A company's compensation committee is legally responsible for decisions regarding the compensation of its NEOs. In this regard, securities market listing standards, state law and compensation committee charters generally provide that it is the compensation committee or the independent directors who review CEO performance, determine CEO compensation, and make recommendations to the board about non-CEO compensation and other compensation plans.

Moreover, the disclosures to be provided in the proposed Compensation Disclosure and Analysis (*e.g.,* how determinations are made as to when equity awards are granted and factors considered in decisions to increase or decrease compensation materially) are particularly within the knowledge of compensation committee members, not company management. Similarly, the certifications set forth in Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, required by chief executive officers and chief financial officers with respect to periodic reports, should not cover these narrative disclosures. CEOs and CFOs are not in a position to certify the processes and methodologies employed by the compensation committee in setting their own compensation. It is the compensation committee – not the CEO or CFO – who can best provide the disclosures set forth in the Proposed Rules (*e.g.*, "why does the company choose to pay each element," and "how does the company determine the amounts [(and, where applicable, the formula)] for each element."). Thus, we believe that the narrative disclosures regarding the compensation objectives and policies for NEOs should continue to be provided over the names of the members of the compensation committee and should not be covered by the certifications required by Sections 302 and 906 of Sarbanes-Oxley. Consequently, we believe that these disclosures should continue to be "furnished" rather than "filed" with the Commission.

II. Compensation Disclosures for Up to Three Non-Executive Officers

The requirement in the Proposed Rules to disclose the total compensation and job description of up to three employees who are not executive officers and whose compensation exceeded any NEO's total compensation will not provide useful information to investors in making voting and investment decisions and raises a number of concerns. First, since it is highly unlikely that the compensation committee is the decision-maker with respect to non-executive employees' compensation, it is unclear as to what purpose this information is intended to serve. Second, disclosing the compensation of certain non-executive officer employees may cause companies competitive harm by assisting competitors in targeting recruiting efforts at companies' top performers. Moreover, disclosure of non-executive employee compensation may lead valued employees to seek new positions at non-U.S. firms and hedge funds in order to protect their privacy and avoid public disclosure of their compensation. Third, the type of employees that may need to be reported under this disclosure will vary greatly by industry (*e.g.*, sales personnel, investment bankers, entertainers, etc.), making it less likely that the information will be readily comparable. Finally, whereas NEOs' total compensation is typically uniform with respect to individual compensation elements and proxy disclosure, non-executives' compensation elements may be wholly different, provide no relative basis of comparison and, without context, would only cause employee morale issues and controversy within a company.

For these reasons, we believe that the disclosure of non-executive officer employee compensation information is unnecessary to the Commission's goal of providing investors with a clearer and more complete picture of the compensation earned by a company's senior management and of the compensation decisions of the company's compensation committee. Therefore, we urge the Commission to not adopt this aspect of the Proposed Rules.

III. Summary Compensation Table

The Roundtable understands the Commission's desire to provide investors with quantifiable information regarding aggregate compensation paid to NEOs. However, we believe that, given the complexity of executive compensation, it is preferable to divide the Total Compensation Column into two separate columns to distinguish between compensation in a particular year that is *actually received* by NEOs and that which NEOs have been given the *opportunity to earn* at some point in the future. An example of our suggested approach is set forth in Exhibit A to this letter. This two column approach responds to concerns that the proposed Total Compensation Column requires companies to combine amounts paid and amounts that at best may be paid at different points of time far in the future, or at worst may never be paid because performance or other criteria are not met. Thus, we believe that this two column format will provide shareholders with a better and more accurate understanding of NEOs' total compensation distinguishing compensation actually paid in a given year and that which only has the potential to be paid in the future, but that may never actually be realized.

IV. Identification of the Most Highly Compensated Officers

Under the Proposed Rules, companies will determine their three most highly compensated executive officers based on the amount disclosed in the Total Compensation Column rather than the aggregate of the Salary and Bonus columns as required under the current rules. We believe that the current approach is preferable, as the use of total compensation will result in factors unrelated to annual compensation governing the executive officers whose compensation is disclosed. For example, under the Proposed Rules, an executive who has been with the company for many years and accrued a substantial nonqualified deferred compensation account may be included as an NEO even though this executive's salary and bonus are much lower than that of other executives with more significant responsibilities.

We also believe that determining NEO status based on the proposed Total Compensation Column could lead to significant year-over-year volatility in a company's NEOs. A single payment in a given year could alter the individuals who must be disclosed in the Summary Compensation Table. This could prevent shareholders from receiving timely information on the specific compensation paid to the most important executive officers. The existing rules already allow companies discretion to exclude a highly compensated individual who is not the CEO due to unusually large bonus amounts or other amounts that are not part of a recurring arrangement (Reg. S-K, Instructions to Item 402(a)(3)). That discretion should continue.

V. Deferred Compensation Disclosures

A. All Other Compensation: Earnings on Deferred Compensation

The Proposed Rules require inclusion in the Summary Compensation Table of "[a]ll earnings on compensation that is deferred on a basis that is not tax-qualified." This is in contrast to the Commission's current rules requiring disclosure of earnings on these amounts only to the extent that earnings are "[a]bove-market or preferential," which we believe is the appropriate standard.

Market rate earnings on deferred compensation amounts are not compensation. They reflect an NEO's decision to defer his or her compensation, which is already reported in the year it is earned. This amount could otherwise be invested and receive a market rate return. The proposed disclosure also may discourage NEOs from electing to defer compensation. For these reasons, the Commission should continue to require the disclosure only of "[a]bove-market or preferential" earnings on deferred compensation. To the extent that the Commission may be concerned about the way in which the current standard is being applied, that concern can be addressed by codifying existing staff interpretations regarding what is "above-market" rather than requiring disclosure of market rate earnings.

B. Nonqualified Defined Contribution and Other Deferred Compensation Plans Table

The proposing release indicates that, in an effort to "provide a more complete picture of potential post-employment compensation," the Commission is proposing to require disclosure of a Nonqualified Defined Contribution and Other Deferred Compensation Plans Table ("Deferred Compensation Table"). This Table will require additional (and at times repetitive) disclosure of compensation paid and earnings on such compensation. The Roundtable believes that this additional disclosure should not be required because it will result in "double counting" of amounts previously disclosed and because such amounts do not reflect compensation actually paid to a company's NEOs.

"Double counting" will occur because deferred amounts are included in the Summary Compensation Table in the year such compensation is received and deferred, and will be included again in the proposed Deferred Compensation Table. Our concern is not alleviated by the provision in the Proposed Rules that companies should disclose in a footnote to the Deferred Compensation Table amounts that previously have been reported as compensation.

Moreover, amounts disclosed in the Deferred Compensation Table are not annual compensation but instead amounts that an NEO has elected to defer, often due to individual tax planning considerations. These amounts represent an investment that the NEO has made in the company, not compensation. Thus, the aggregate balance and earnings thereon have no correlation to an NEO's annual compensation. Instead, an NEO's balance under a deferred compensation plan is the equivalent of a bank account where the NEO has deposited certain amounts. However, unlike deposits with federally insured banks, these amounts are "at risk" – dependent on the company's future, just as shareholders are with respect to their shares – since these are unfunded liabilities on a company's balance sheet. Disclosure of these balances could deter such deferrals, thereby undermining an important method for linking NEOs' and shareholders' interests.

VI. Retirement Plan and Change in Control Disclosures

A. All Other Compensation: Increase in Pension Value

The Roundtable does not believe that the Commission should require disclosure of "[t]he annual increase in actuarial value of [tax-qualified defined benefit and supplemental employee retirement] plans. "Actuarial values are heavily impacted by factors other than compensation, including an NEO's tenure with the company and an NEO's age. Moreover, the determination of actuarial values requires assumptions to be made concerning a variety of factors. Two identical pension plans could be determined to have significantly different values depending on the particular assumptions made in attempting to calculate the value of each. The resulting disclosure will not be meaningful to investors nor result in disclosures that can be readily compared between companies. Moreover, pension plans typically are offset by a company's tax-qualified plans, an NEO's Social Security benefits and similar plans made available through an NEO's prior employer.

If the Commission nevertheless determines to require disclosure of increases in actuarial values, we suggest that such information be included in the Retirement Plan Potential Annual Payments and Benefits Table ("Retirement Table") instead of the Summary Compensation Table. The increase in pension value is similar to the types of information to be disclosed in the Retirement Table and is wholly unrelated to the types of compensation information required to be set forth in the Summary Compensation Table.

B. Retirement Plan Potential Annual Payments and Benefits Table and Change in Control Disclosures

The Roundtable supports the Commission's efforts to provide additional disclosure regarding specific pension benefits available to NEOs. However, we believe that the Proposed Rules are unnecessarily detailed with respect to the information required to be included in the Retirement Table. We are concerned that the Proposed Rules will result in excessive, highly detailed disclosure that, because of the multitude of assumptions involved, will be nearly impossible for companies to compile and for investors to understand. Moreover, because retirement plans vary greatly, we do not believe that these disclosures will be readily comparable, thus reducing their utility to investors. We believe that any requirements in this regard should instead be principles-based.

Similarly, we are concerned that proposed Item 402(k), which will expand disclosure requirements regarding termination and change in control provisions, will result in voluminous disclosure based on hypothetical estimates of change in control payments. In this regard, it may be impossible to accurately estimate many of these payments and requiring their disclosure may well increase liability. We therefore encourage the

Commission to revise Item 402(k) to remove the requirement that companies disclose "the estimate[d] payments and benefits that would be provided in each termination circumstance."

VII. Related Party Transactions

We appreciate the Commission's efforts to update and simplify the related party transaction disclosure requirements under Item 404 of Regulation S-K. In particular, we support increasing the Item 404 disclosure threshold from $60,000 to $120,000. However, with respect to the proposal to require disclosure of a company's policies and procedures regarding related party transactions, we note that many companies already include these policies and procedures in their codes of conduct. Accordingly, we encourage the Commission to permit companies to cross-reference to such information on a company's website rather than requiring duplicative disclosure in a company's proxy statement. Section 303A.10 of the New York Stock Exchange (NYSE) Listed Company Manual requires listed companies to adopt codes of conduct and publicize the codes by posting them on their corporate websites. Thus, we encourage the Commission to conform its proposed disclosure requirements accordingly.

VIII. Corporate Governance Disclosures

We commend the Commission for proposing to consolidate and update the myriad of corporate governance disclosure requirements into proposed Item 407 of Regulation S-K. However, we have some concerns with respect to proposed Item 407(a)(3), which would require disclosure of "*any* transactions, relationships or arrangements not disclosed [under Item 404(a)] that were considered by the board of directors of the company in determining that the applicable independence standards were met" (*emphasis added*). As discussed in more detail below, such disclosure is overly broad and unnecessary.

Several current requirements contain, or permit companies to adopt, thresholds whereby certain relationships are not required to be disclosed. For example, current Item 404(b) of Regulation S-K requires disclosure of, among other things, certain business relationships where the amount involved is "in excess of five percent of (i) the registrant's consolidated gross revenues for its last full fiscal year, or (ii) the other entity's consolidated gross revenues for its last full fiscal year. "Similarly, under Section 303A of the NYSE's Listed Company Manual, a company may adopt categorical independence standards delineating those relationships and transactions that the company has determined are *per se* immaterial with respect to director independence. Relationships and transactions that fall within those standards are not required to be disclosed. Companies must publicly disclose these categorical standards and thus investors are aware of the criteria applied by boards of directors in determining a director's independence. If a relationship does not fall within these standards, and the director is nevertheless determined to be independent, companies must disclose the relationship and the basis for such determination.

Proposed Item 407(a)(3) does not contain any such threshold and instead requires disclosure of *every* "transaction, relationship or arrangement" not already disclosed but considered by a board. Boards of directors take seriously their responsibility to examine the various relationships that directors may have with other business and non-profit organizations and management. As a result, we believe that the Proposed Rules could result in extensive disclosures that are less useful to investors than the current disclosures regarding categorical independence standards. As noted in the Commentary to NYSE Listed Company Manual Section 303A.02(a), the approach with respect to categorical standards described above "provides investors with an adequate means of assessing the quality of a board's independence and its independence determinations while avoiding excessive disclosure of immaterial relationships."

The Proposed Rules may also make it more difficult to recruit independent directors since companies will need to disclose mere coincidental relationships that do not impact a determination that a candidate is independent. Moreover, since the NYSE independence standards were adopted in 2003, we believe that investors have become accustomed to these disclosures about company categorical standards and independence determinations that fall outside of those standards. For these reasons, we believe that the Commission should revise Item 407(a)(3) to incorporate the categorical standards concept in Section 303A of the NYSE Listed Company Manual or the five percent threshold in current Item 404(b) so that immaterial transactions need not be disclosed.

We also are concerned that some of the required disclosures in proposed Item 407(e) concerning the compensation committee are not useful to investors and reflect a misunderstanding of the process followed by compensation committees in considering executive compensation. Specifically, the Proposed Rules will require disclosure of "any role of executive officers in determining or recommending the amount or form of executive and director compensation. "Company executive officers often provide information to the compensation committee that is necessary for the committee's decision making. For example, chief executive officers share their views on the individual performance of other executive officers, chief financial officers share financial information relevant to benchmarking performance and related compensation, the head of human resources may provide feedback on the company's compensation programs, and the general counsel may provide analysis with respect to the provisions of various equity-based plans. For these reasons, we urge the Commission to narrow the scope of proposed Item 407(e) so that it does not require disclosure of information sharing activities that are part of the ordinary procedures of information gathering used by compensation committees in considering executive officers' compensation.

IX. Other Issues

The Proposed Rules will significantly expand disclosures regarding severance and "change of control" payments. Pending before the Commission is a proposed rule to establish new NASD Rule 2290 (Amendment No. 3 to SR-NASD-2005-080, "Proposed Rule Change to Establish New NASD Rule 2290 Regarding Fairness Opinions"). This NASD proposal will require fairness opinions issued by NASD members to address whether executive compensation arising from the underlying transaction is a factor in reaching a fairness determination. Some NASD members have objected to the NASD proposal because they do not have the requisite expertise or experience with executive compensation arrangements generally to provide such analysis. We believe that the enhanced disclosures set forth in the Proposed Rules provides investors with necessary information about severance and change of control payments, thereby eliminating the need for the NASD proposal to address such issues.

* * *

Business Roundtable appreciates the opportunity to provide comments on the Proposed Rules. Please do not hesitate to contact Thomas Lehner at Business Roundtable at (202) 872-1260 if we can provide further information.

Sincerely,

/s/ Steve Odland

Steve Odland
Chairman and CEO, Office Depot, Inc.
Chairman, Corporate Governance Task Force
Business Roundtable

Attachment

cc: Hon. Christopher Cox, Chairman, U.S. Securities and Exchange Commission
Hon. Paul S. Atkins, Commissioner
Hon. Roel C. Campos, Commissioner
Hon. Cynthia A. Glassman, Commissioner
Hon. Annette L. Nazareth, Commissioner
John W. White, Director, Division of Corporation Finance
Brian G. Cartwright, General Counsel

EXHIBIT A

REVISED SUMMARY COMPENSATION TABLE

								Total Compensation	
Name and Principal Position (a)	**Year** (b)	**Salary ($)** (c)	**Bonus ($)** (d)	**Stock Awards ($)** (e)	**Option Awards ($)** (f)	**Non-Stock Incentive Plan Compensation ($)** (g)	**All Other Compensation ($)** (h)	**Actually Received* ($)** (i)	**Opportunity to Earn** ($)** (j)
Principal Executive Officer	____ ____ ____								
Principal Financial Officer	____ ____ ____								
A	____ ____ ____								
B	____ ____ ____								
C	____ ____ ____								

* The Actually Received column, based on the Proposed Rules, generally would include the amounts in the columns titled Salary, Bonus, Non-Stock Incentive Plan Compensation and All Other Compensation.

** The Opportunity to Earn column, based on the Proposed Rules, generally would include Stock Awards and Option Awards.

MERCER MEDIAN CEO PAY TREND DATA
($000)

		1995	2005	CAGR
Mercer 350 Median CEO Pay ($000)				
1.	Salary	$729.0	$975.0	3.0%
2.	Bonus[1]	703.0	1,433.7	7.4%
3.	Long-Term[1]	1,287.5	4,421.5	13.1%
4.	Total	$2,719.5	$6,830.2	9.6%
Mercer 350 Median Financial Metrics ($mil)				
1.	Revenue	$5,055.7	$7,627.5	4.2%
2.	Net Income	261.5	590.5	8.5%
3.	Market Cap	4,324.6	10,078.4	8.8%
4.	TSR Index	1.00	3.32	12.7%

[1] Derived median

The New York Times

A Contrarian Look at Whether U.S. Chief Executives Are Overpaid

By Tyler Cowen
The New York Times
05/18/2006

FROM 1980 to 2003, the average compensation of an American chief executive at a top 500 company rose by a factor of about six. The average compensation for the chief executives of these top companies reached roughly $11 million a year, including the value of options. No other country pays so much. For instance, American chief executives received roughly four times what their Swedish counterparts in comparably sized companies did and 3.1 times that of a Japanese chief at a comparably sized company.

Not surprisingly, many people think the American executives are overpaid. Their salaries are set by corporate boards, often filled with insiders or friends. Salaries for the top executive are far from transparent, especially when stock options and complex compensation plans are used. Nor is pay always linked to performance. Kenneth L. Lay received a salary and bonus of more than $8 million plus perks in 2000, less than a year before Enron's collapse.

But in a new paper, ''Why Has C.E.O. Pay Increased So Much?'' (http://ssrn.com/abstract=901826), the economists Xavier Gabaix of the Massachusetts Institute of Technology and Augustin Landier of the Stern School of Business at New York University offer a contrarian view. They suggest that the higher salaries for chief executives can largely be explained by increases in the value of the stock market. Viewed as a whole, these salaries are a result of competitive pressures rather than the exploitation of shareholders.

Their core argument is simple. If we look at recent history, compensation for executives has risen with the market capitalization of the largest companies. For instance, from 1980 to 2003, the average value of the top 500 companies rose by a factor of six. Two commonly used indexes of chief executive compensation show close to a proportional sixfold matching increase (the correlation coefficients are 0.93 and 0.97, respectively; 1.0 would be a perfect match).

So how does this argument work? Better executive decisions create more economic value. If the number of big companies is greater than the number of good chief executives, competitive bidding will push up pay to reflect the value of the talent.

As Professors Gabaix and Landier predict, chief executives' salaries in different sectors are higher when the capitalization of that sector is higher. A stronger sector means more bidders for a chief executive of a particular kind; an executive who has run one car company can go run another. Chief executives in large industries, therefore, receive more, even after adjusting for the size of their current companies. Business services, computers and banking turn up as exceptions for this comparison; their top executives are overpaid relative to what market capitalization alone would imply. Perhaps chief executives can add more value in more dynamic sectors.

The authors are still working on their international comparisons; it is difficult to compare compensation across countries. But the preliminary results suggest that the total value of the companies in the sector helps predict how chief executives' salaries vary from country to country. Executives of large companies in France have fewer outside opportunities in comparable companies than their American counterparts and they thus receive less compensation, in this case by a factor of 2.4 to 1.

The approach of Professors Gabaix and Landier to executive compensation is influenced by their French background. In the United States, the popular debate turns on merit -- whether chief executives are worth the money. In Europe, where inequality is less socially acceptable, the popular debate concerns whether anyone could possibly deserve so much money. This perspective led Professors Gabaix and Landier to focus on explaining the overall level of executive compensation, opening up a new approach to the problem.

The two also find that the best chief executives do not seem to have much more talent than other chief executives in what they define as the top 250. By their calculations, replacing the No. 250 chief executive with the No. 1 will increase the value of the company by only 0.014 percent. The No. 1 chief executive receives much more compensation, but that is mostly because he manages a larger company and thus his talent has a longer reach. That is another way of thinking about why the same chief executive will make more money in a larger marketplace or in a larger country.

The Gabaix-Landier argument does not cover all objections. We do not have adequate data for longer stretches of American history. There are important cultural differences across countries. Lucian A. Bebchuk of Harvard Law School, a leading critic of chief executives' pay, argues in response to the paper that pay remains insensitive to performance, that high executive pay is correlated with bad corporate governance and that chief executives take great care to hide their true compensation. For those reasons, he does not believe that executive pay is driven by productivity.

In any case, the debate over chief executives' salaries has moved a step forward. Yes, there are numerous examples of corporate malfeasance. But it is not obvious that the American system of executive pay -- taken as a whole -- is excessive or broken. The critics contend that chief executives cheat public shareholders. But private equity typically pays its top executives very well, even though public shareholders are not a factor. Furthermore, the rate of productivity growth in the United States has been the envy of the world. Chief executives must be doing something right.

The growth in executive compensation reflects how much more is at stake in American companies. Is not the real question which policies and institutions have led to this explosion of value?

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Job Security Wanes in Executive Suites; CEO Turnover at Top Companies Was 15.3% in 2005, Highest in a Decade

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It's getting shaky at the top.

More than 15 percent of the world's 2,500 biggest companies lost their chief executives last year, and only half of the departures were voluntary, according to a study that will be released by the consulting firm Booz Allen &Hamilton today.

The number of chief executives who left -- 383 -- was up slightly from last year and the 15.3 percent turnover rate was the highest recorded in the 10 years Booz Allen has studied the matter. Turnover was highest in Japan, with 19 percent, and in North America, where the 16.2 percent turnover rate was the highest since 2000.

"We think this level of turnover is here to stay," said Paul Kocourek, a Booz Allen senior vice president and an author of the study. "Boards are much more activist, and they are not going to tolerate poor performance. . . . If your [company is] performing at 2.5 percent below the Standard &Poor's 500 index, you are at risk."

The statistics from North America tend to bear that out. Thirty-five percent of chief executives who departed in 2005 were forced out -- the most ever recorded in the survey -- compared with 44 percent who left voluntarily and 25 percent who lost their jobs because of mergers. Among the high-profile departures last year were Harry C. Stonecipher, forced out at Boeing Co. after a scandal; Hewlett-Packard Co.'s Carly Fiorina; Walt Disney Co.'s Michael D. Eisner, and Morgan Stanley's Philip J. Purcell.

Retirements and other voluntary departures have not changed significantly since 1995, but the number of chief executives forced out for performance-related reasons has more than quadrupled, Kocourek said.

Much of the change seems to stem from regulatory changes that have emphasized director independence and made them feel more personally responsible for company performance, as well as the growing willingness of large investors to challenge company strategies when share prices are lagging.

High chief-executive turnover can have both good and bad consequences.

"It's very good. It creates a culture of accountability," said Charles M. Elson, who directs the Center for Corporate Responsibility at the University of Delaware. "Boards who remove CEOs are to be congratulated. They're doing their job. . . . In the old days, there were lots of reasons to remove [corporate leaders], but boards dominated by CEOs didn't do it."

For employees, change can create uncertainty. "CEO turnover is often coupled with broader organizational change along the lines of layoffs and selling businesses and changing strategies," said Paul Oyer, an associate professor of economics at Stanford University's business school. "When CEOs turn over, that's both a problem and an opportunity."

On the other hand, high turnover could make chief-executive jobs less attractive. "If you ask CEOs to take the risk of having to resign in a fairly public manner . . . people might be less willing to take the job and want higher compensation, which means you shrink the pool," said Constance E. Helfat, a strategy professor at Dartmouth's Tuck School of Business who studies chief-executive turnover.

Some analysts wondered whether the problem will be exacerbated if the Securities and Exchange Commission adopts a proposal to require more disclosure of executive perks. If it does, they said, top business executives might decide to work for a privately held company or a venture capital firm rather than a publicly traded firm, to avoid the risk of public scrutiny.

The Booz Allen study also looked at the succession process and concluded that over the short term, companies that brought in new chief executives from the outside did better than those that promoted someone from the inside. But insider chiefs tended to serve longer and provided better shareholder return over the long haul.

Others who have studied the matter said the Booz Allen study may overstate the benefits of outsiders, even in the short term, because outsiders are more likely to inherit companies that are in bad shape where investors are primed to respond positively to any kind of change. Helfat said that in her study of chief executives during the first three years of their tenure, she found that once she adjusted for the company's previous performance, outsiders and insiders performed, on average, equally well. Outsider chiefs were more of a gamble, she said, because they were more likely to do spectacularly badly or spectacularly well, while insiders tended to stick closer to average.

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REVIEW & OUTLOOK

Private FEMA

In time we'll find out what went wrong after Katrina hit, but it's not too early to start drawing attention to what went right. Near the top of any list should be the remarkable response of the business community. It's had a lot to do with the relief effort's successes.

The straightforward generosity of the corporate sector has been well reported. By last count, donations had exceeded $200 million. Besides cash, companies have handed out free drugs, suspended finance payments on cars and mortgages and helped emergency personnel with equipment. As interesting, though, has been the application of corporate best practices–from supply-chain management to logistics–to a natural disaster.

The private-sector planning began before Katrina hit. Home Depot's "war room" had transferred high-demand items–generators, flashlights, batteries and lumber–to distribution areas surrounding the strike area. Phone companies readied mobile cell towers and sent in generators and fuel. Insurers flew in special teams and set up hotlines to process claims.

This planning allowed the firms to resume serving customers in record time. Katrina shut down 126 Wal-Mart facilities; all but 14 are now open. Entergy, the power company for 1.1 million households and businesses that lost electricity, had restored electricity by Monday to 575,000 customers, including areas of flooded New Orleans.

Businesses offered near-instant support to their own employee- victims. Staff set up hotlines and began tracking down missing workers. Thousands of workplace victims were provided with places to stay, promises of continued pay and even offers of replacement jobs elsewhere in the country.

At the heart of the corporate response was a stunning array of advanced communications networks that kept firms in touch and coordinating. Following on last year's tsunami aid effort, the Business Roundtable had by August of this year arranged for each of its 160 member companies to designate a disaster relief point man. These folks were in place and ready to help before Katrina made landfall. The U.S. Chamber of Commerce, through its non-profit Center for Corporate Citizenship, became a clearinghouse, fielding calls from many of its 3,000 state and local organizations and compiling lists of needed supplies.

By the weekend the Chamber's CCC was turbo-charging a new computer program, designed by tech firm i2, which served as a kind of bridal registry for needed relief supplies. Each donor company indicated what order it would fill, avoiding duplication or delay. IBM got to work on a computerized job bank to help place those who'd lost work. The American Trucking Association set up a Web site to update everyone on road conditions.

Companies then focused on doing what each did best. In some cases it was simply ramping up operations, as with Black & Decker, whose employees worked Labor Day weekend to churn out extra generators. In other cases, it was firms using their modern logistical skills to get into hard hit areas. FedEx and other delivery companies used computer systems with designed-in flexibility to reroute vehicles and adjust flights to get in aid. FedEx has already moved more than 100 tons of relief supplies.

Wal-Mart mined its vast databases of past purchases to compile lists of goods most desired after a hurricane. (Among the top items? Strawberry pop tarts.) Because of its advance logistics planning, the big retail chain was able to quickly move in to devastated areas with mini Wal-Marts to hand out goods. Other firms leveraged similar supply-chain capabilities; Pfizer dispensed pharmaceuticals via Wal- Mart and other retailers. "What companies do is solve problems," says Johanna Schneider, an executive director at the Business Roundtable.

Granted, a FEMA is never going to operate with the agility of a FedEx. FedEx and the others perform at this level 24/7; that's the nature of competition. That said, surely there are lessons here worth learning and attempting to transfer to the public sector. And we don't mean three years from now after another round of reassessment and performance reviews. The challenge of reconstruction is now. It wouldn't hurt if the responsible public agencies asked the private participants in the rescue operation for some pointers on getting the next job done on budget and on time.