



THE CONFERENCE BOARD

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The Conference Board Finds That CEOs Have a Lot Of Financial Interest in Common With Their Shareholders

New Executive Compensation Report Sheds Light on CEO Holdings Relative to Compensation

NEW YORK, Dec. 31, 2007 -- While CEOs have frequently come under fire for not acting in the interest of shareholders, this year's study of top executive compensation by The Conference Board finds that CEOs of the largest companies actually have a substantial amount of "skin in the game."

Other key findings of a report released today, which are part of a larger study by The Conference Board that will be released early in 2008, include:

- The highest median total compensation (\$3.9 million) is recorded in Utilities, Food and Tobacco, and Insurance industries, with Construction a close fourth. Median CEO compensation was computed for 22 industry groupings (see Chart 1). Total compensation is defined as the sum of annualized salary, bonus, non-equity incentive compensation, the reported grant date present value of options, the value of stock awards, the change in pension value, and all other compensation.
- While the highest median CEO total compensation is recorded in Utilities and Food and Tobacco industries and the median CEO compensation in the Insurance industry ranks third, the median CEO *cash* compensation (sum of annualized salary, bonus, and non-equity incentive compensation) is highest in the insurance industry (\$1.6 million).
- Not surprisingly, larger companies (in terms of revenue) compensate their CEOs at a higher level (see Chart 2). But less obvious is the notably smaller portion of compensation that is delivered through salary for CEOs of larger companies (see Chart 3). The smallest (in terms of revenue) 10 percent of companies deliver 57 percent of their total compensation in salary and the largest 10 percent of companies (in terms of revenue) deliver only 12.45 percent as salary. Inversely, the fraction of compensation delivered in the form of stock and stock options (both forms of "at-risk" compensation) increases as the revenue of the company increases.

There are several likely reasons for this mix of compensation elements. The million dollar cap on corporate tax deductibility for elements of compensation not related to performance makes it relatively more costly to compensate executives in cash using traditional vehicles such as salary and bonuses above one million dollars.

“Small companies could also rely more heavily on salary because, in general, the impact of CEO leadership (new products, marketing or processes) may be more immediate and thus effectively rewarded using shorter-term compensation,” state the authors.

More ‘Skin in the Game’

The relatively large portion of compensation in the form of stock and stock options delivered to CEOs of large companies can accumulate over time. This creates stock and option wealth in the company such that, at the median, chief executives of the largest companies have a surprising amount of “skin in the game,” holding many multiples of their salary in stock and stock options in the company.

Looking at CEOs of the smallest companies, the median chief executive is holding 11 times salary in stock and stock options (total holdings, vested and unvested). But, his/her CEO counterpart among the largest 10 percent of companies is holding *over 80 times* salary in company stock and stock options (see Chart 4).

“There is a lot of debate about how making chief executives feel at risk for the stock price will align their interests more closely with those of the shareholders,” notes the report. “Under this logic, big multiples are good—it should make the CEO think more like shareholders. This measure would suggest that a significant degree of alignment should have been achieved already, especially for the largest companies.”

The amount of “skin in the game” appears less dramatic if total holdings are looked at as a percentage of total compensation instead of as a multiple of salary, prompting the question: is salary the right denominator for measuring how much skin there is in the game? It is also important to note that the “wealth” measured here in terms of company stock does not capture other forms of wealth or holdings of any stock beyond that of the CEO’s own company.

The authors add that although invested wealth in the company is not a form of current compensation, it is linked to the stock price performance of the company. Executives who have large stakes of wealth in the company have a link between their own wealth and the stock price performance of the company, providing financial incentives (beyond current compensation) to guide their company toward positive performance.

Setting the Context: Changes in the Regulatory Landscape

The Securities and Exchange Commission (SEC) released new rules relating to the disclosure of executive and director compensation which took effect for companies reporting on executive compensation in 2007. These rules were intended to give shareholders and other readers of proxy statements more clarity and consistency in viewing executive compensation data. They provide companies with more direction regarding the form and content for presenting executive and director compensation information including both narrative and tabular requirements to provide more information about the compensation committee’s activities and considerations.

In addition to the new Compensation Discussion and Analysis (CD&A) the SEC requires more extensive executive compensation disclosures. These cover three broad categories: current compensation, equity-related holdings that can be the source of future gains, and retirement plans and other post-employment

compensation. They also align the reporting of stock awards in certain tables with their accounting treatment. To control for different considerations in preparing numbers, this report uses data from a number of areas from company proxy reports and concentrates on seven elements of compensation: salary, bonus, non-equity incentive compensation, stock, stock options, changes in pension, and other compensation for CEOs across different company size (revenue) groupings and industries.

Defining Terms — Elements of Compensation

To provide a consistent view of total compensation, compensation data were compiled from proxy statement tables. The terms used in this report are defined as follows:

Cash Compensation — Cash compensation is the sum of annualized salary, bonus, and non-equity incentive compensation. These data are from the *Summary Compensation Table* in the 2007 proxy.

Total Compensation — For this report, “total compensation” was calculated using the sum of the individual elements from a combination of tables as described below, not the “Total Compensation” column from the Summary Compensation Table. Total compensation is the sum of annualized salary, bonus, non-equity incentive compensation, the reported grant date present value of options, the value of stock awards, the change in pension value and earnings on non-qualified deferred compensation, and all other compensation.

Salary — The annualized salary, regardless of whether paid or deferred, as reported in the 2007 proxy. Salary is reported in the *Summary Compensation Table* “Salary” column (c).

Bonus — Cash bonus awards, regardless of whether paid or deferred, as reported in the 2007 proxy that are discretionary or subjectively determined; bonuses that are not based on pre-established, substantially uncertain criteria; bonuses that are guaranteed and not strictly performance-based (see non-equity incentive compensation for strict performance-based compensation). For example, “bonus” includes sign-on bonuses which are paid before performance can be judged. Any award paid above and beyond salary and formula-based incentive compensation is defined as “bonus.” Bonus payments are reported in the *Summary Compensation Table* “Bonus” column (d).

Non-Equity Incentive Compensation — Short-term and long-term awards (cash—not denominated in stock) that are based on pre-established, performance-based criteria where the outcome is substantially uncertain at the time established. The SEC requires companies to report all performance-based cash awards, both long-term and short-term, in the year in which they are paid. These payments are reported in the *Summary Compensation Table* “Non-Equity Incentive” column (g). This is payment above and beyond salary and is awarded based on performance against pre-determined criteria. While not called “bonus,” it is a performance based award paid in addition to both salary and “bonus” as previously defined. (Confusion may arise for the layperson because in common lexicon non-equity incentive is often informally referred to as a bonus, which it technically is not.)

The Value of Stock Options Granted — This is the reported grant date present value of options (from the “Grant of Plan-based Awards Table” of the proxy statement).

The Value of Stock Awards — This is the value as reported in the *Summary Compensation Table* “Stock Awards” column (e).

Change in Pension Value and Non Qualified Deferred Compensation Earnings — The amounts reported represent the actuarially determined change in the value of defined benefit pensions and nonqualified deferred compensation earnings, including supplemental plans. This is reported in *Summary Compensation Table* “Change in Pension Value and Non Qualified Deferred Compensation Earnings” column (h).

All Other Compensation — Incremental cost of perquisites (\$10,000 or more), tax gross-ups, company contributions to qualified and non-qualified defined contribution plans, preferential stock purchase, relocation, etc. Reported in the *Summary Compensation Table* “All Other Compensation” column (i).

Data Source

The data used in this report were taken from the *Summary Compensation Table* and the *Grant of Plan-Based Awards Table* in the 2007 proxies. As stock is treated differently according to the requirements of each proxy table it is important to note that the value of option awards was taken from the “*Grant of Plan-based Awards Table*” to capture the company’s estimate of the present value of options granted to the executive at the time of the grant. The annualized salary, bonus, non-equity incentive compensation, value of stock awards, change in pension value and earnings on non-qualified deferred compensation, and value of all other compensation were taken from the *Summary Compensation Table*. All underlying data used for this analysis were provided by Salary.com.

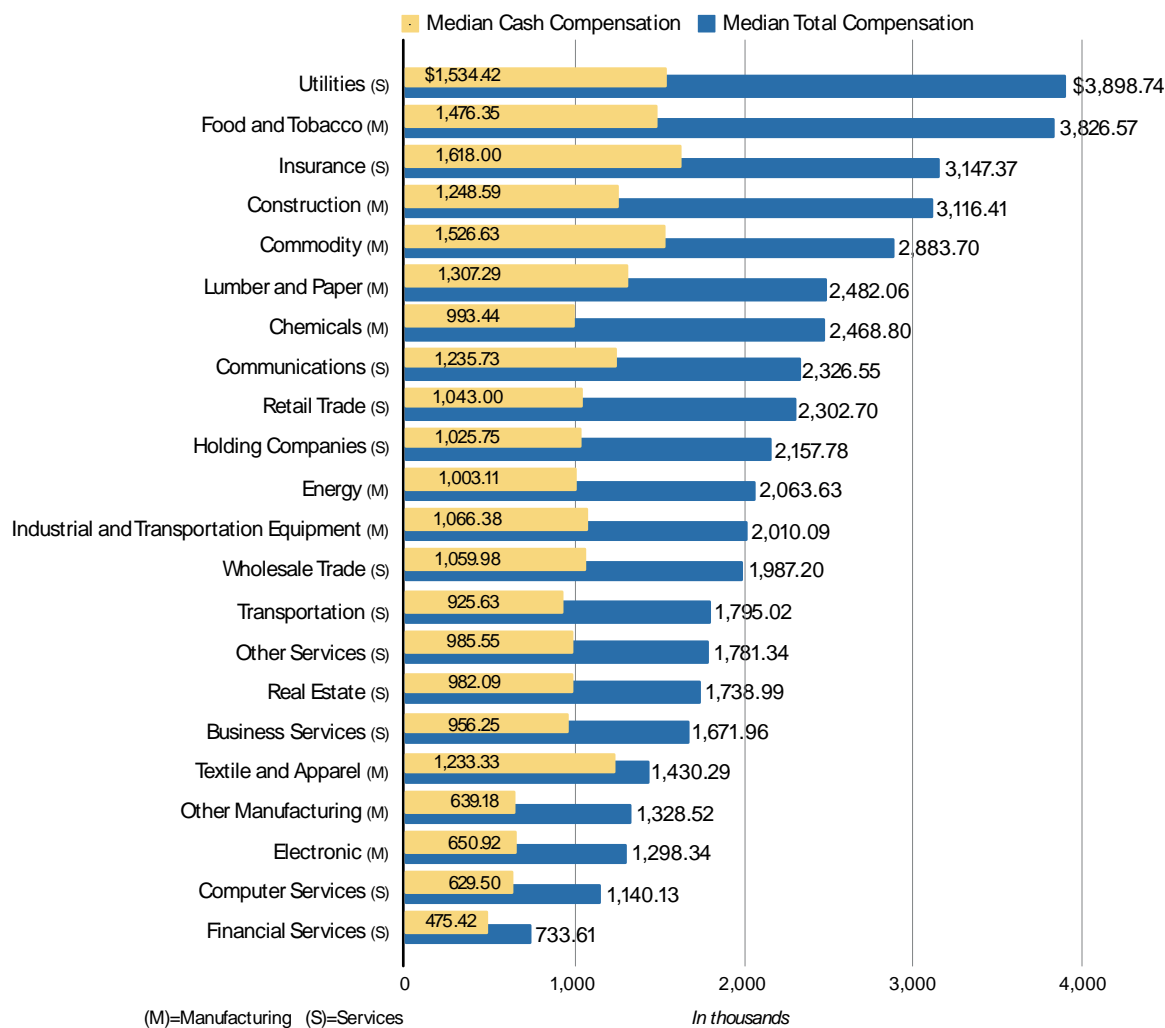
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Chart 1

Cash compensation and total compensation for the median paid CEO varies substantially by industry

(CEO Cash Compensation and Total Compensation by Industry)*



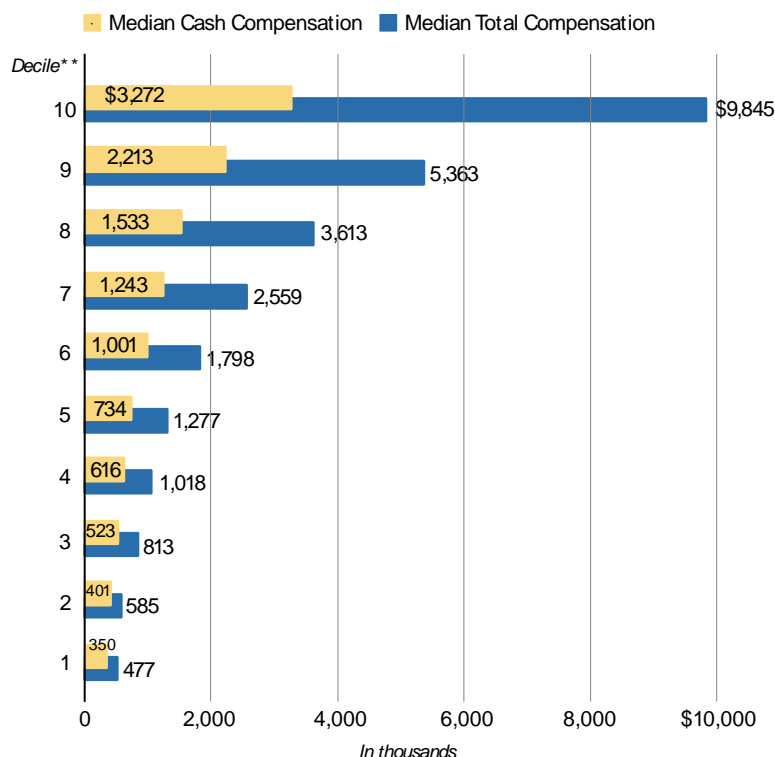
* Cash compensation is the sum of annualized salary, bonus, and non-equity incentive compensation. Total compensation is defined as the sum of annualized salary, bonus, non-equity incentive compensation, the reported grant date present value of options, the value of stock awards, the change in pension value and earnings on non-qualified deferred compensation, and all other compensation. The total does not come from the summary compensation table of the Proxy, it is the sum of the individual elements as previously defined.

Counter-intuitively, median total compensation in Financial Services, a broad brush classification that includes many smaller "commercial banks" as well as large "non-banking financial services" companies, ranks last. Separating this industry into two industry sub-classifications explains much, however. The median CEO total compensation in the financial services sub-group "commercial banks" is just over \$650,000. In striking contrast, that for "non-banking financial services" alone is near \$3 million and among the top five industry medians.

Chart 2

Size matters in two ways: median compensation rises with company revenue as does the share of compensation not paid in cash.

(CEO Cash Compensation and Total Compensation by Revenues)*



Decile	Revenues in \$ millions
1	0 to less than 52.238
2	52.238 to less than 91.334
3	91.334 to less than 169.612
4	169.612 to less than 265.721
5	265.721 to less than 449.5785

6	449.5785 to less than 744.755
7	744.755 to less than 1,267.91
8	1,267.91 to less than 2,532.131
9	2,532.131 to less than 6,394.772
10	6,394.772 and above

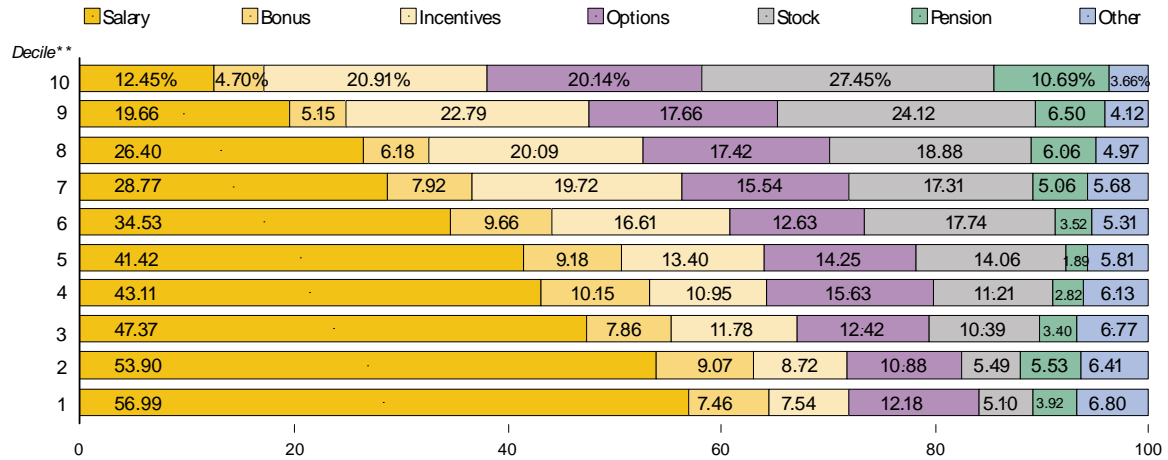
* Cash compensation is the sum of annualized salary, bonus, and non-equity incentive compensation. Total compensation is defined as the sum of annualized salary, bonus, non-equity incentive compensation, the reported grant date present value of options, the value of stock awards, the change in pension value and earnings on non-qualified deferred compensation, and all other compensation. The total does not come from the summary compensation table of the Proxy, it is the sum of the individual elements as previously defined.

** Companies are sorted by size (annual revenue) and categorized into groups from the smallest 10% of companies in the sample to the largest 10%, regardless of industry. These revenue groupings form the vertical axis in the figure. By construction, each of the ten groups contains the same number of companies (except for cases where rounding or missing data create variation), while the industry make-up within each size grouping may vary. Company size can be defined in several ways. One alternative to annual revenue is company assets. Throughout this set of key findings, we report company revenue.

Chart 3

CEOs of companies with a higher level of revenue have comparatively more of their compensation in stock and stock options.

(CEO Compensation Mix Distribution by Revenues)*



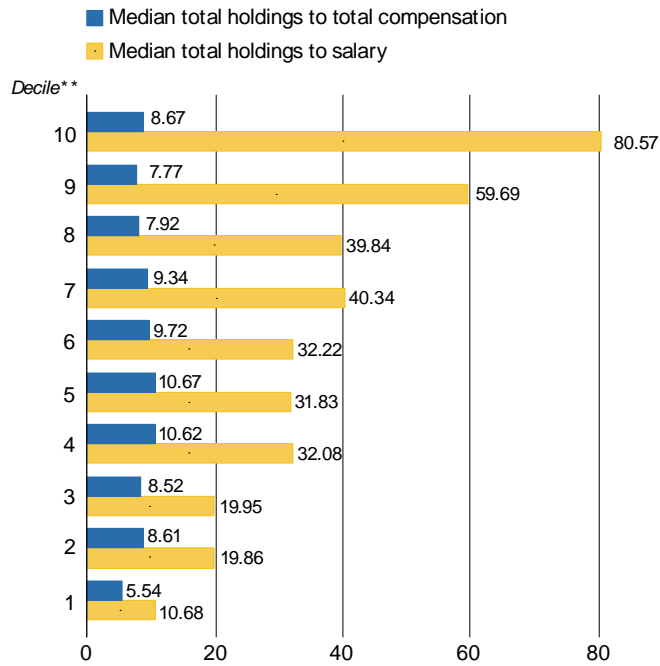
* CEO Compensation Mix Distribution is based on the average fractions of each element of compensation across salary, bonus, non-equity incentive, stock, options, pension, and other compensation. Each of these variables (except for options) is from the Summary Compensation Table of the company proxy. The options data are from the Granted Options Table.

** For revenue range of deciles, see legend to Chart 2.

Chart 4

The ratio of total holdings to salary is notably larger than the ratio of total holdings to total compensation and varies more across company size.

(CEO Ratio of Total Holdings to Total Compensation and Salary by Revenues)*



* The first (blue bars) is the ratio of total holdings (the sum of the value of unvested unearned equity, unexercised in-the-money options, and beneficial ownership) to total compensation (sum of annualized salary, bonus, non-equity incentive compensation, the reported grant date present value of options [from the options table], the value of stock awards, the change in pension value, and all other compensation). The second (gold bars) is the ratio of total holdings (the sum of the value of unvested unearned equity, unexercised in-the-money options, and beneficial ownership) to salary.

** For revenue range of deciles, see legend to Chart 2.