

Harnessing the reward:

Equity compensation's evolving role in total compensation

Featuring the findings from PricewaterhouseCoopers' 2007
Global Equity Incentives Survey

February 26, 2008



Co-hosted by PwC's Human Resource Services
and Alumni Relations

Administrative Issues

- One-hour webcast
- Audio with slides, no video for this program
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- For better sound quality, use headphones
- To print this entire PowerPoint presentation, click on the “Downloadable Files” area of this screen
- If you have any questions throughout the live program, type them in the ‘question’ box, then click on ‘submit’
- At the end of this webcast, please complete our survey

Administrative Issues – CPE Credits

- In order to receive CPE credit for this program, you must:
 - stay on for the entire program and participate by responding to all interactive questions asked during the program
- As stated in the invitation to this program: CPE cannot be awarded for participants who are not logged on to this webcast as themselves, who participate over the phone, or participate on the on-demand version
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Agenda

- A summary of the 2007 Survey results
- How companies are reacting / evolving
 - Trends in equity compensation design and valuation
 - What do the findings mean for your organization?
 - Can we translate Survey findings into business actions?
- Deep Dive
 - Trends in equity compensation design and valuation
 - The role of equity compensation in the overall rewards package
 - Analytics used to manage equity compensation as part of overall compensation to executives
 - Grants/participation outside country of corporate headquarters
 - Challenges in Plan compliance, particularly outside the country where the company's headquarters is located
- Issues/questions from participants

CPE Question 1

What is your biggest concern related to equity compensation?

- Retaining value in plans during recession
- Competitiveness in recruiting
- Managing costs
- Complying with changing regulatory requirements
- Motivating employees to drive business strategy
- Administering plan
- Other (write in)

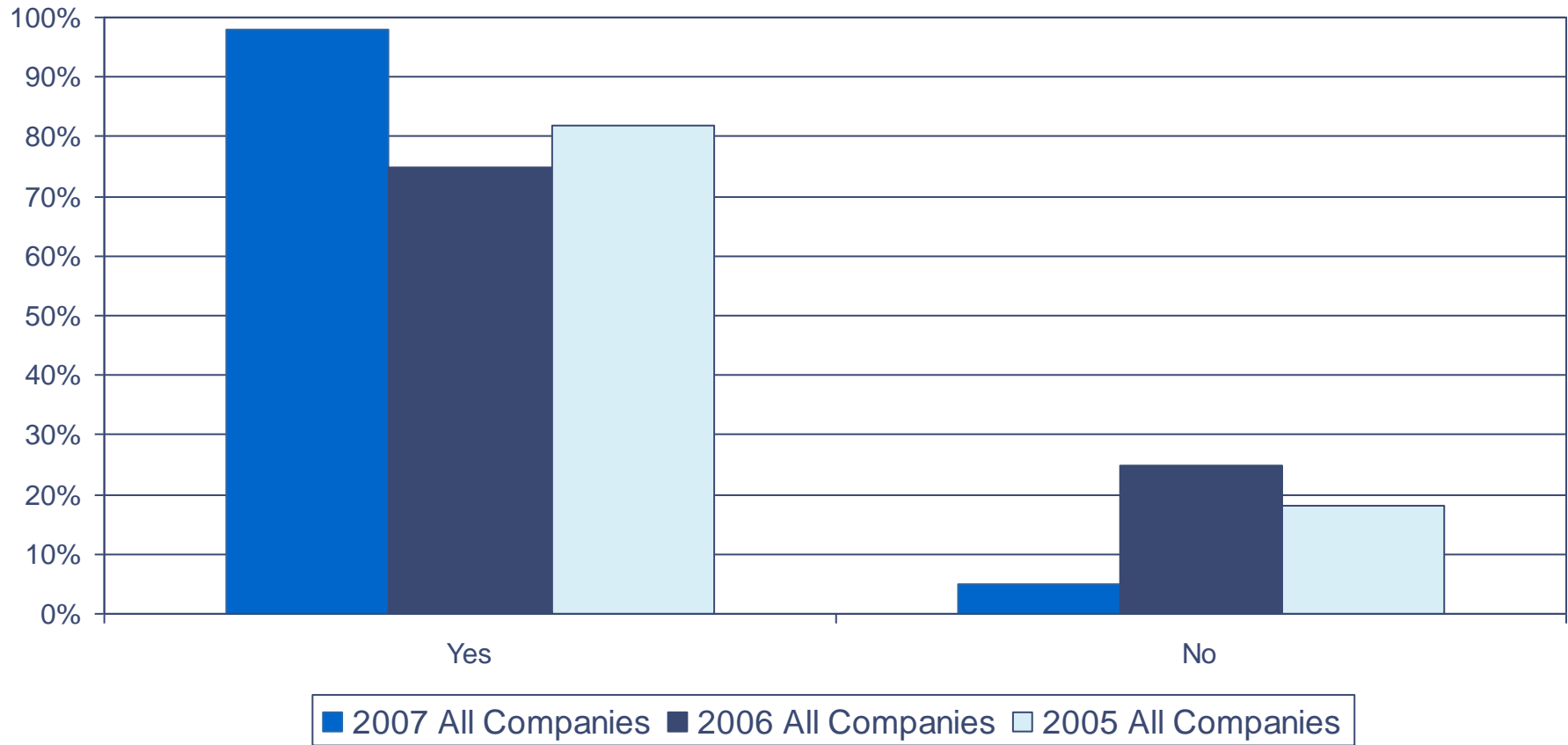
2007 Global Equity Incentives Survey

Major Findings

- Despite complexity, equity continues to be a popular reward vehicle
- Diversification in type of equity grants
 - Increased prevalence of performance based grants
 - Continuing decline in use of stock options
- Reasons for changes in plan design shifting from accounting to market competitiveness

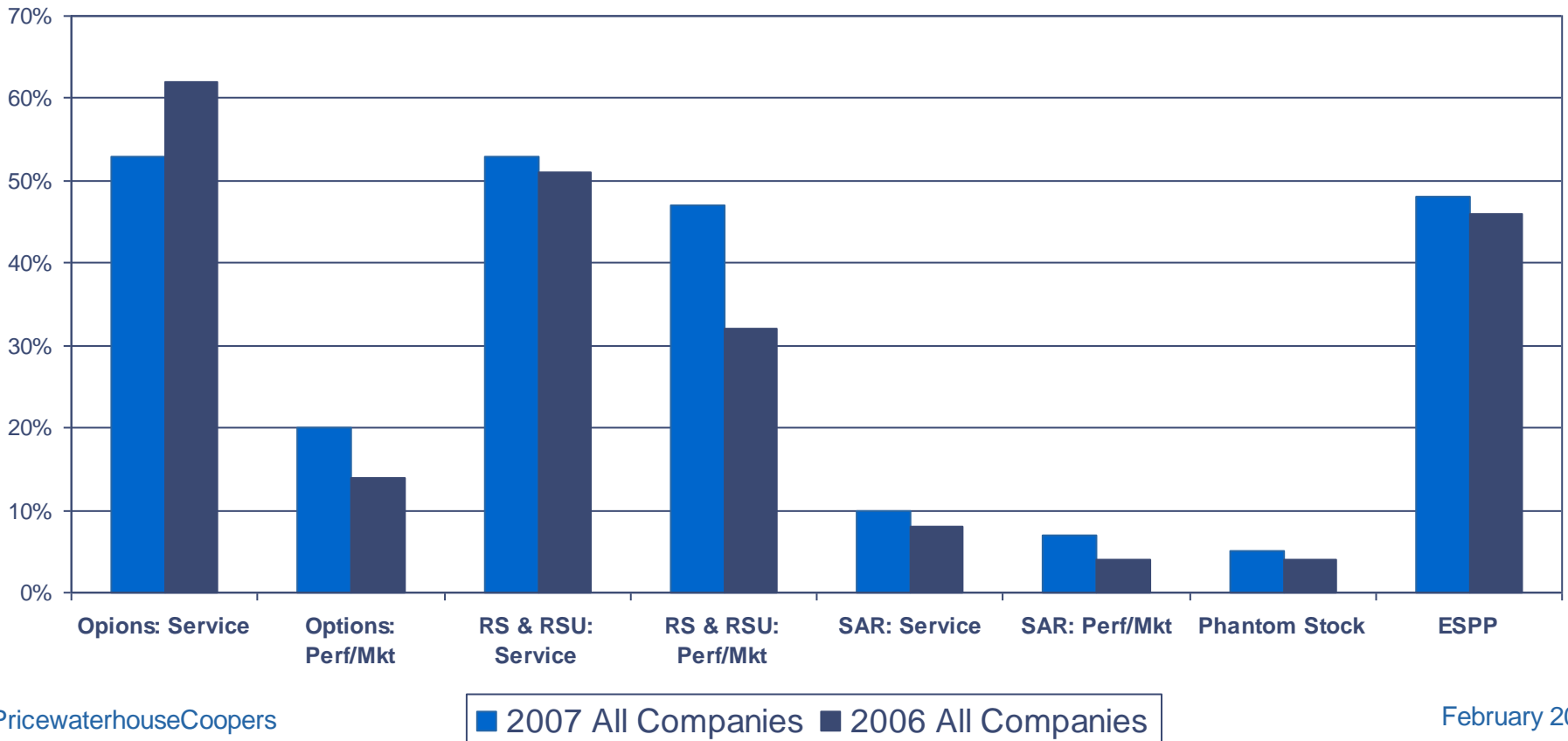
Are the benefits of your company's global equity compensation plans worth the costs?

Plan Benefits Worth the Costs?



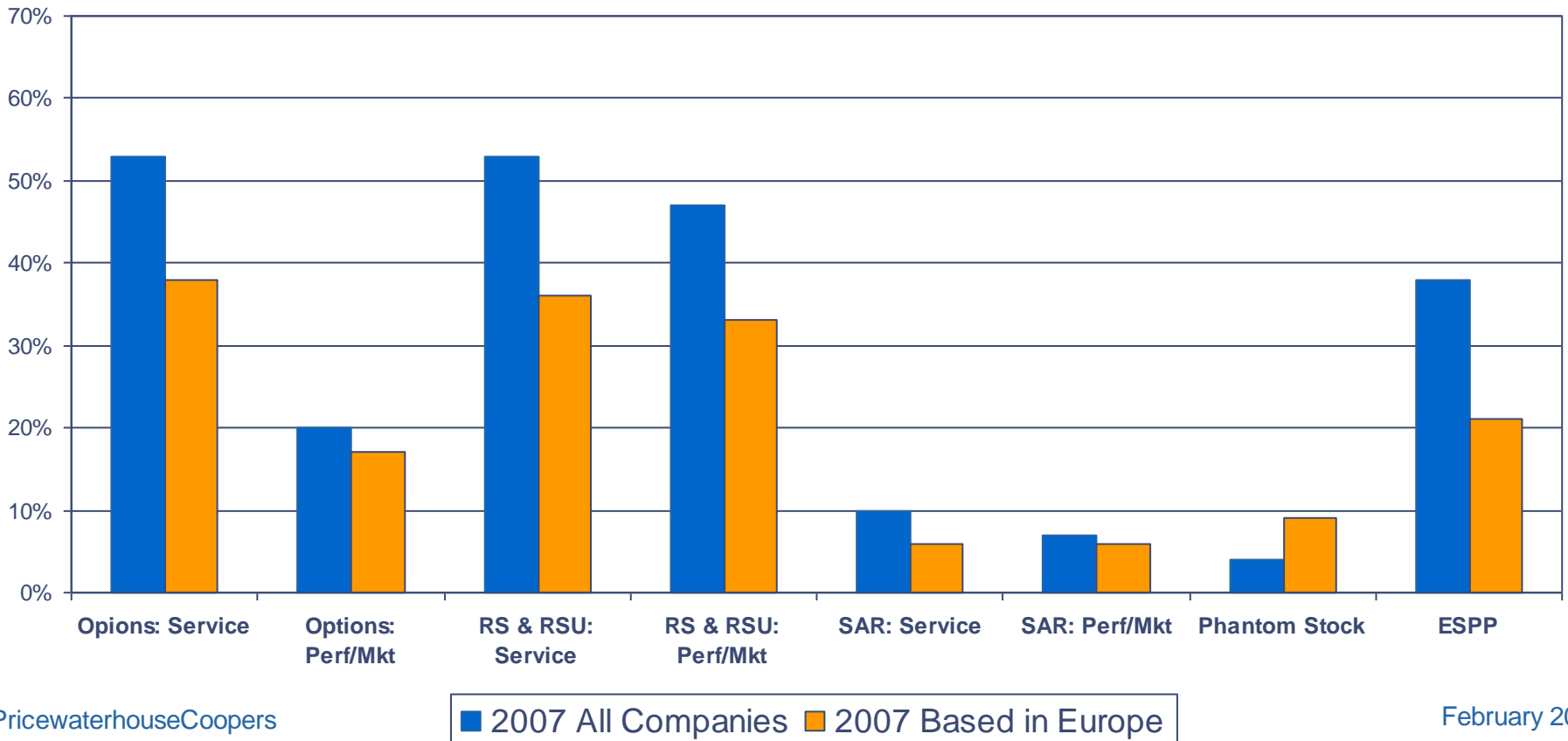
2007 and 2006 Equity Compensation Mix – All Companies, Employees in the US

Equity Compensation Mix – Last Two Years Companies with Employees in the US

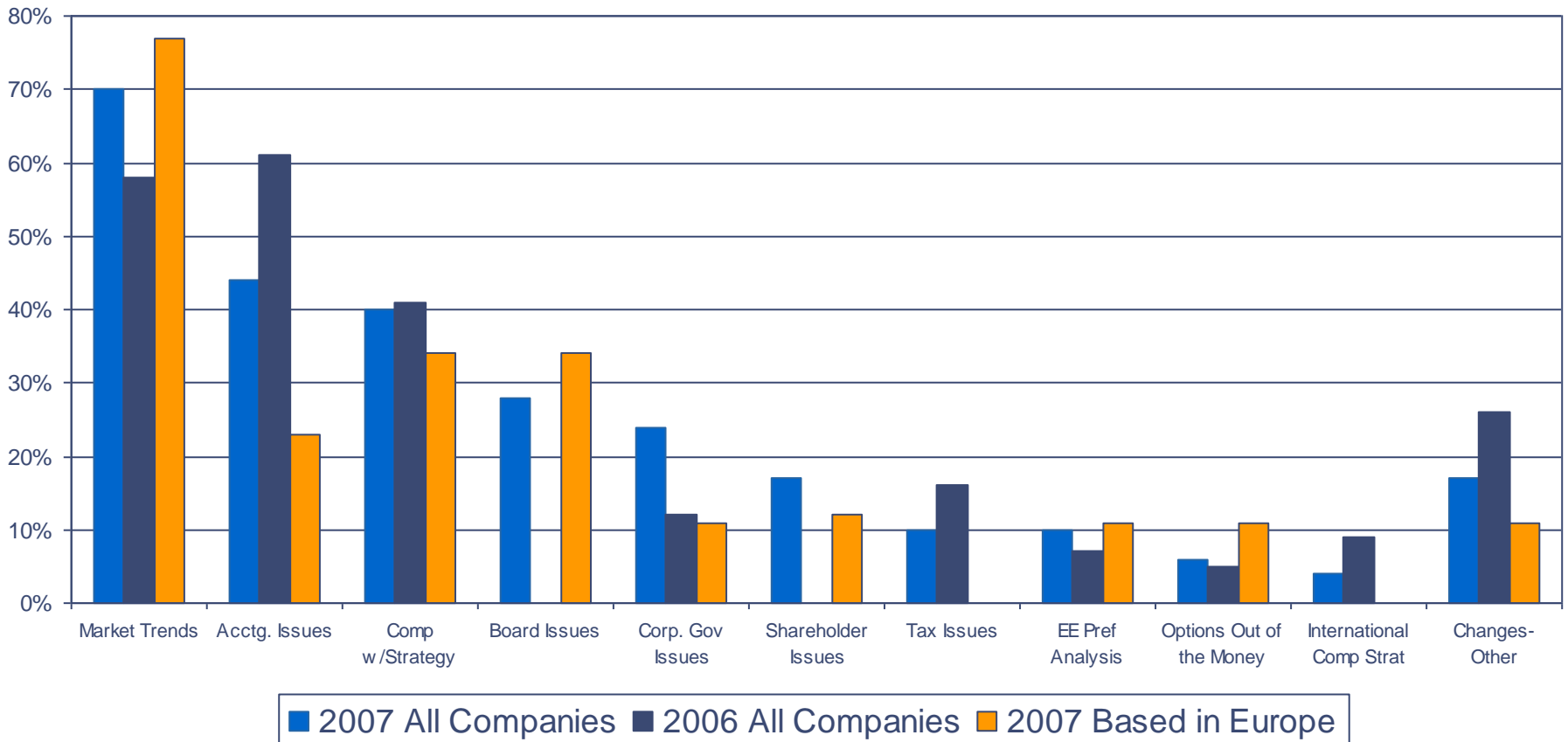


2007 Equity Compensation Mix – All Companies vs. based in Europe, Employees in US

Equity Compensation Mix Companies with Employees in the US



Reasons for Making Option Plan Changes



CPE Question 2

Who participates in your equity plans?

- Executives/Upper Management
- VP, Directors, Middle Management
- Sales
- Technical
- All other salaried
- Other

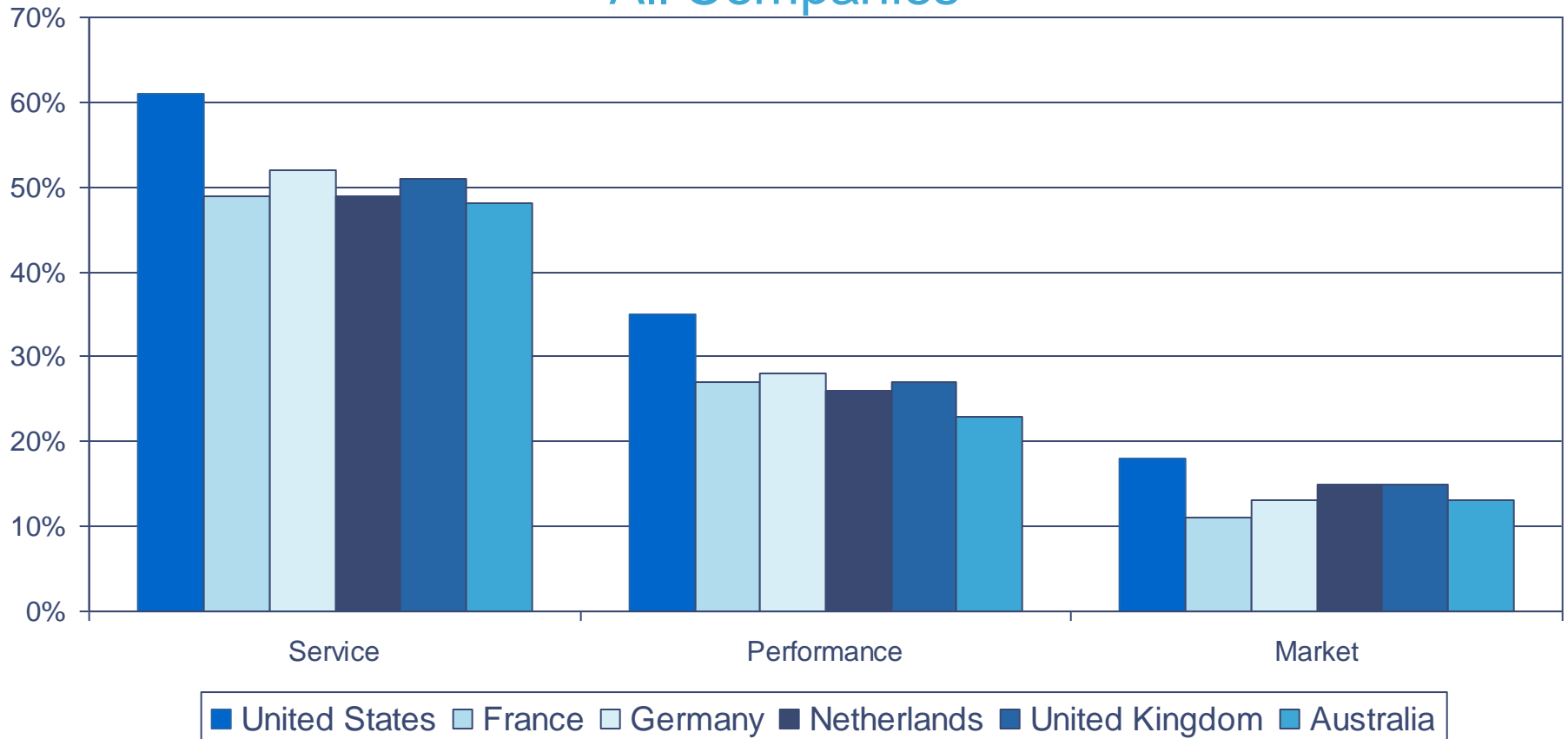
2007 Global Equity Incentives Survey

Performance Plans

- Trend toward convergence among All and European-based companies
- Performance and Market-based plans more prevalent among European-based companies
- Employees in US are more likely to participate in each type of plan than any employees in other countries (among All companies)
- Basis for performance and market targets

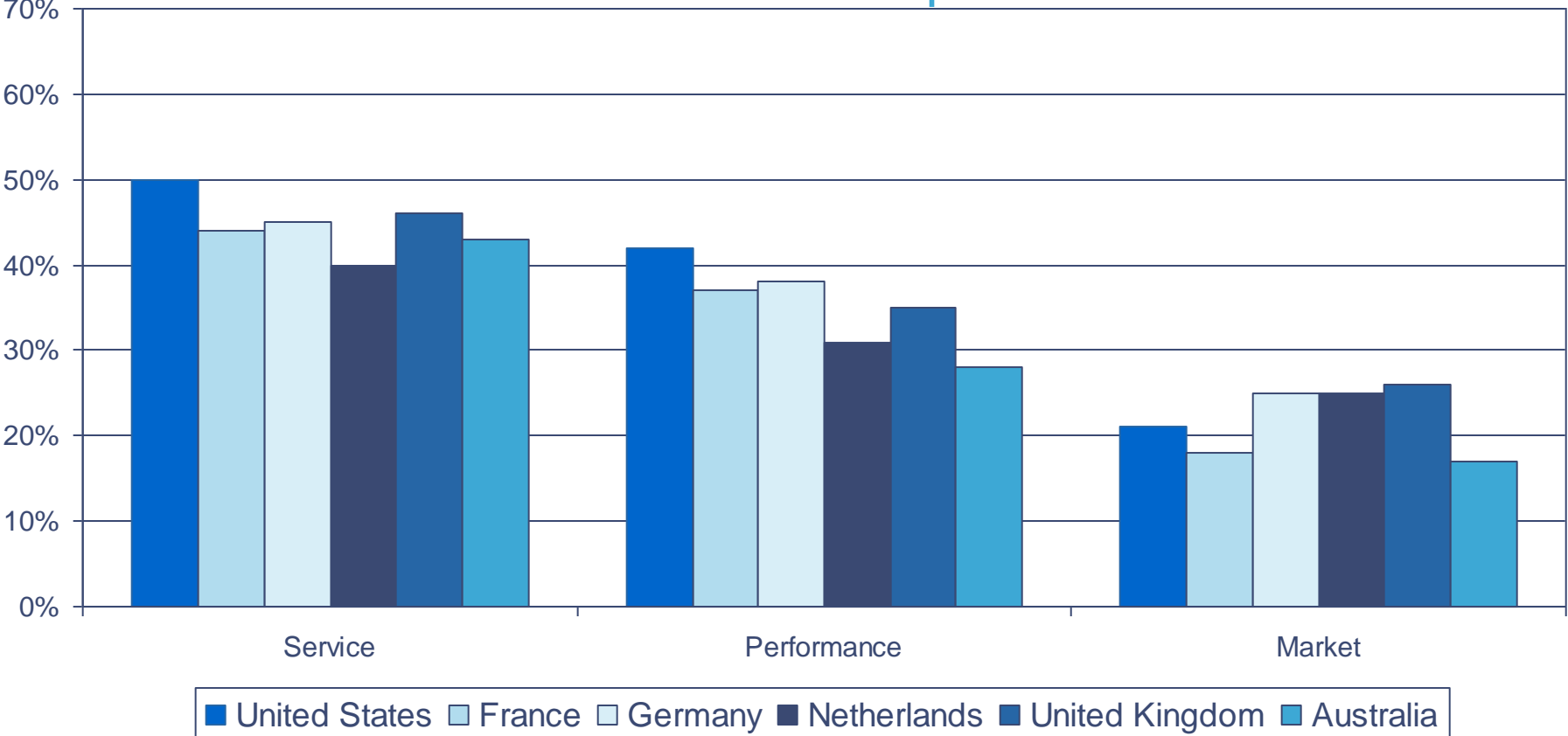
All Companies

Prevalence of Service, Performance, Market Plans All Companies

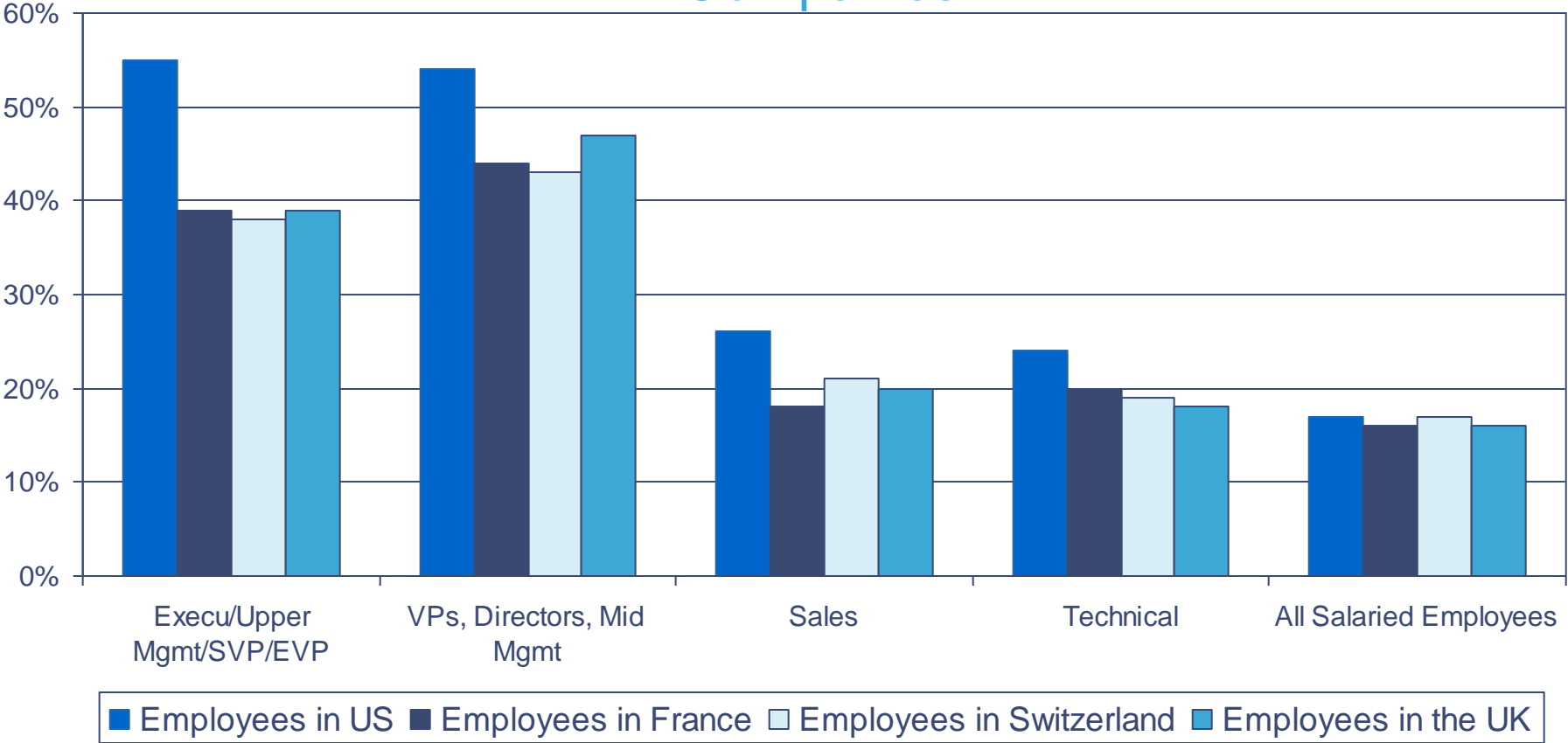


Companies based in Europe

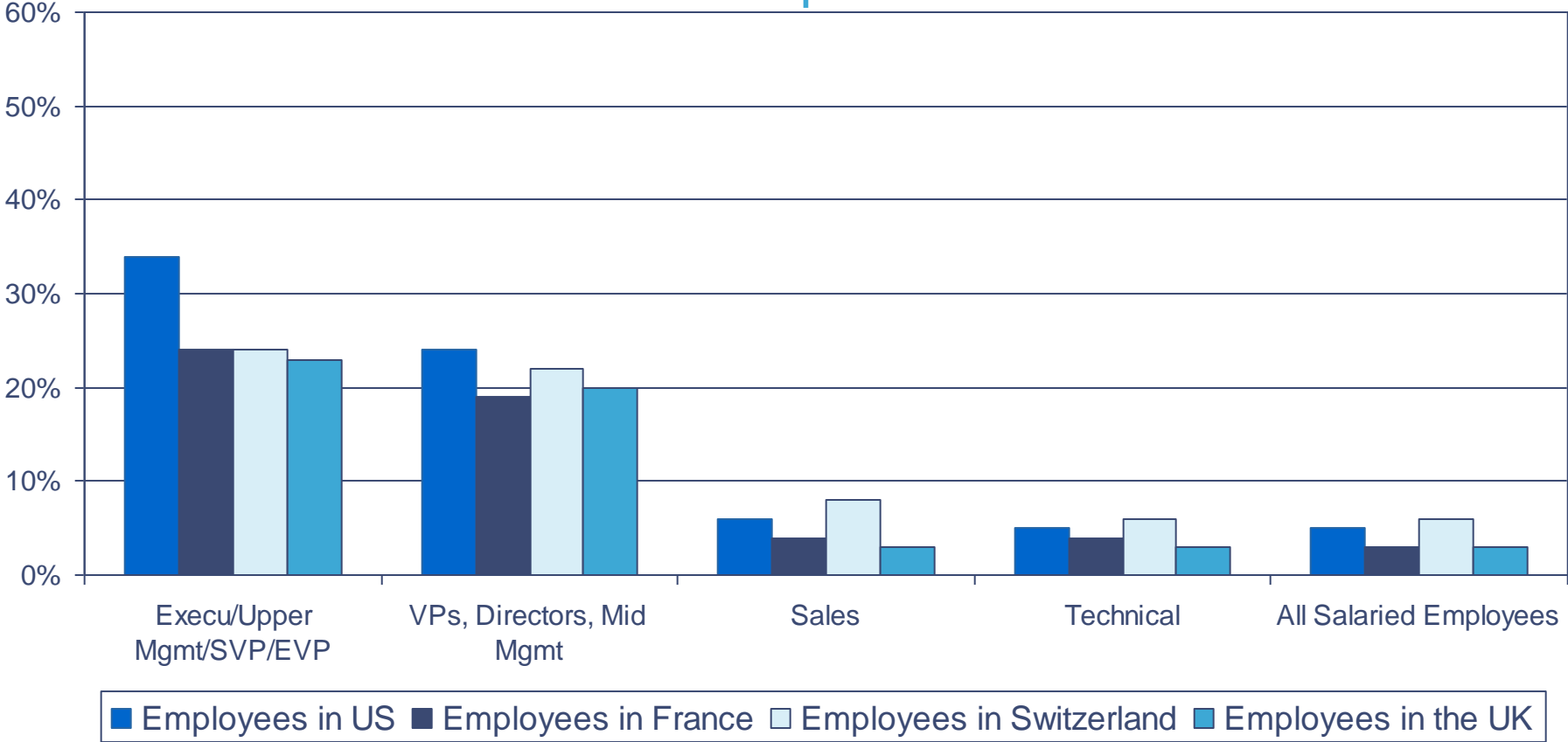
Prevalence of Service, Performance, Market Plans Based in Europe



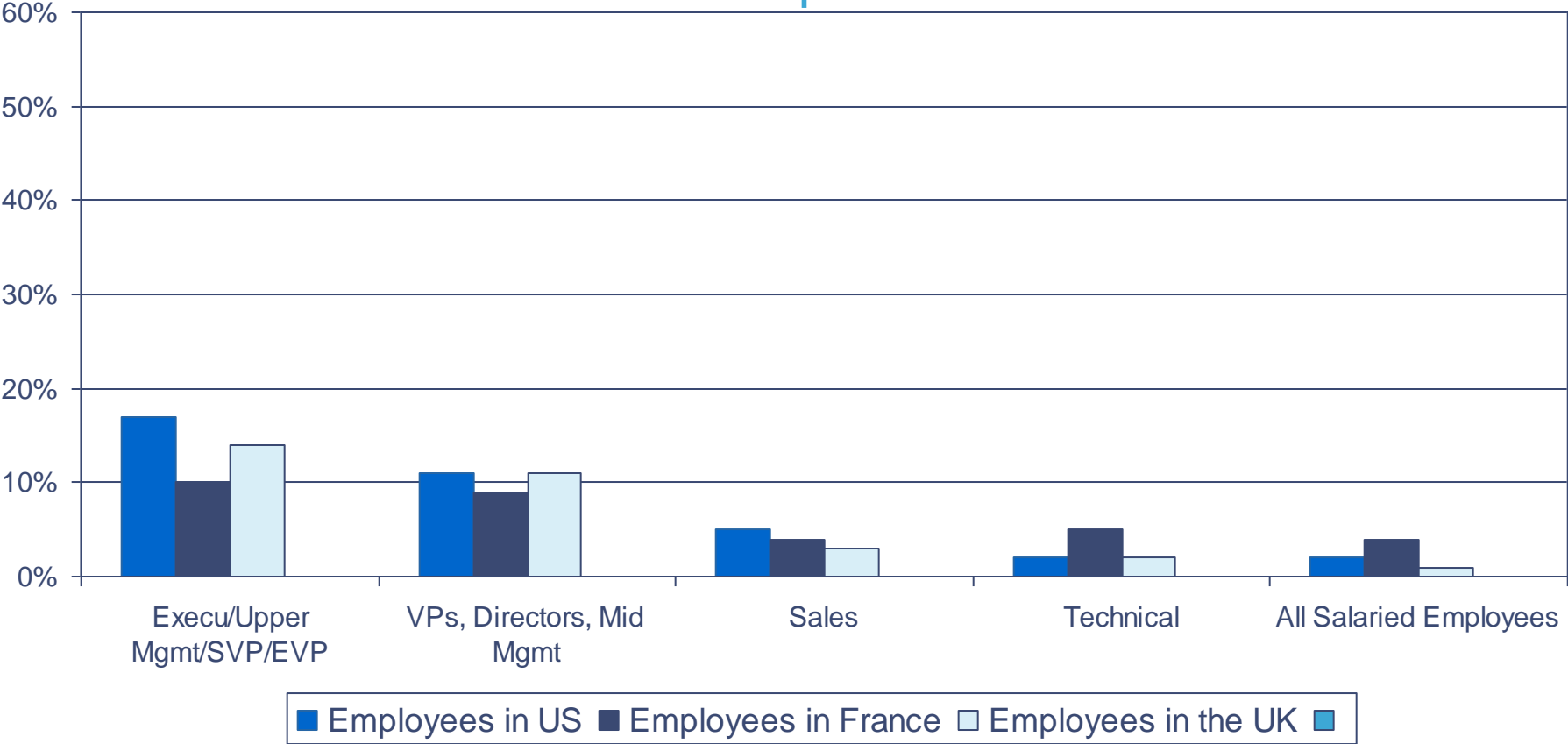
Participation in Service-based Plans All Companies



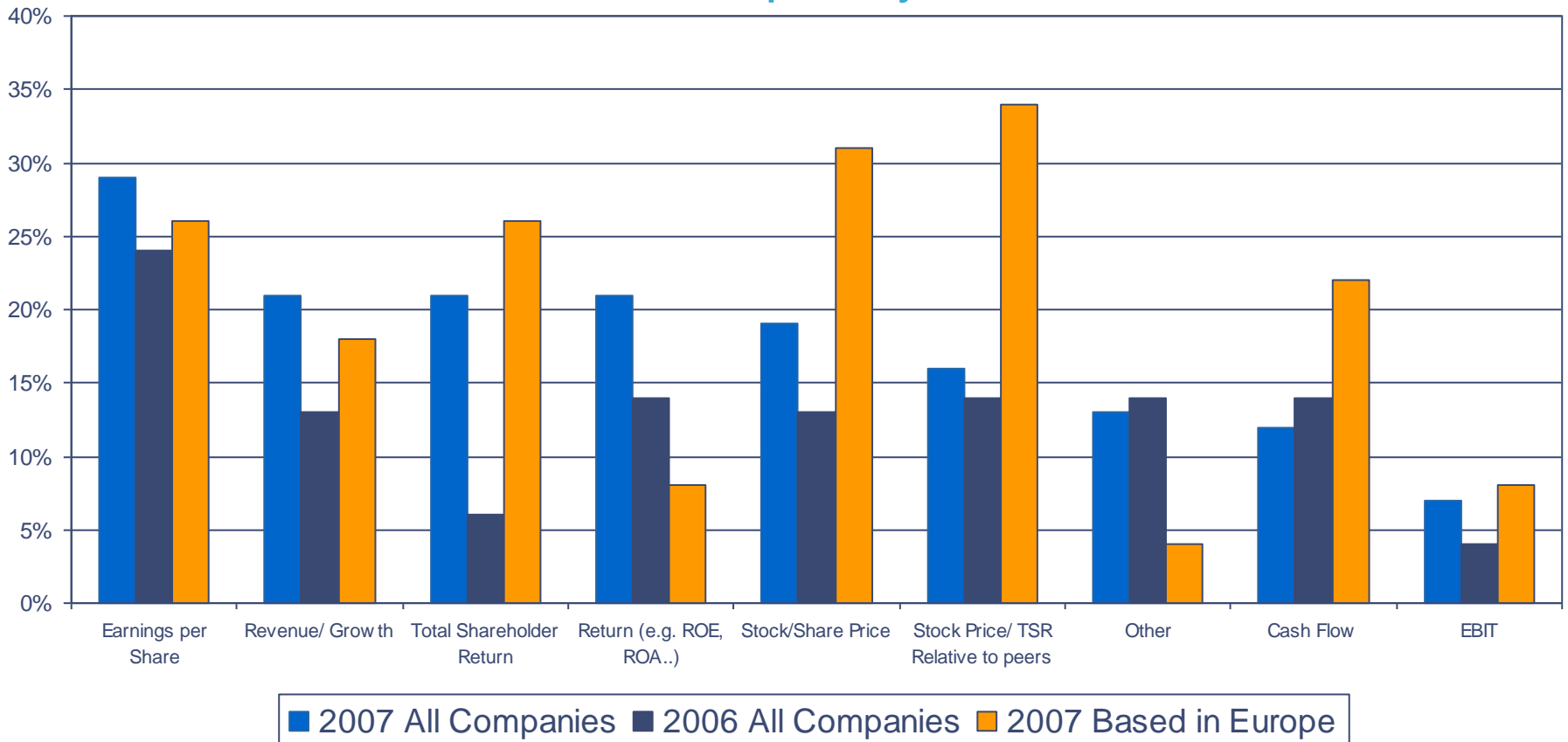
Participation in Performance-based Plans All Companies



Participation in Market – based Plans All Companies



Basis for Performance/Market Targets Most Frequently Cited



CPE Question 3

Does your company track movements of employees who get equity compensation across countries?

- Yes
- No
- Don't know

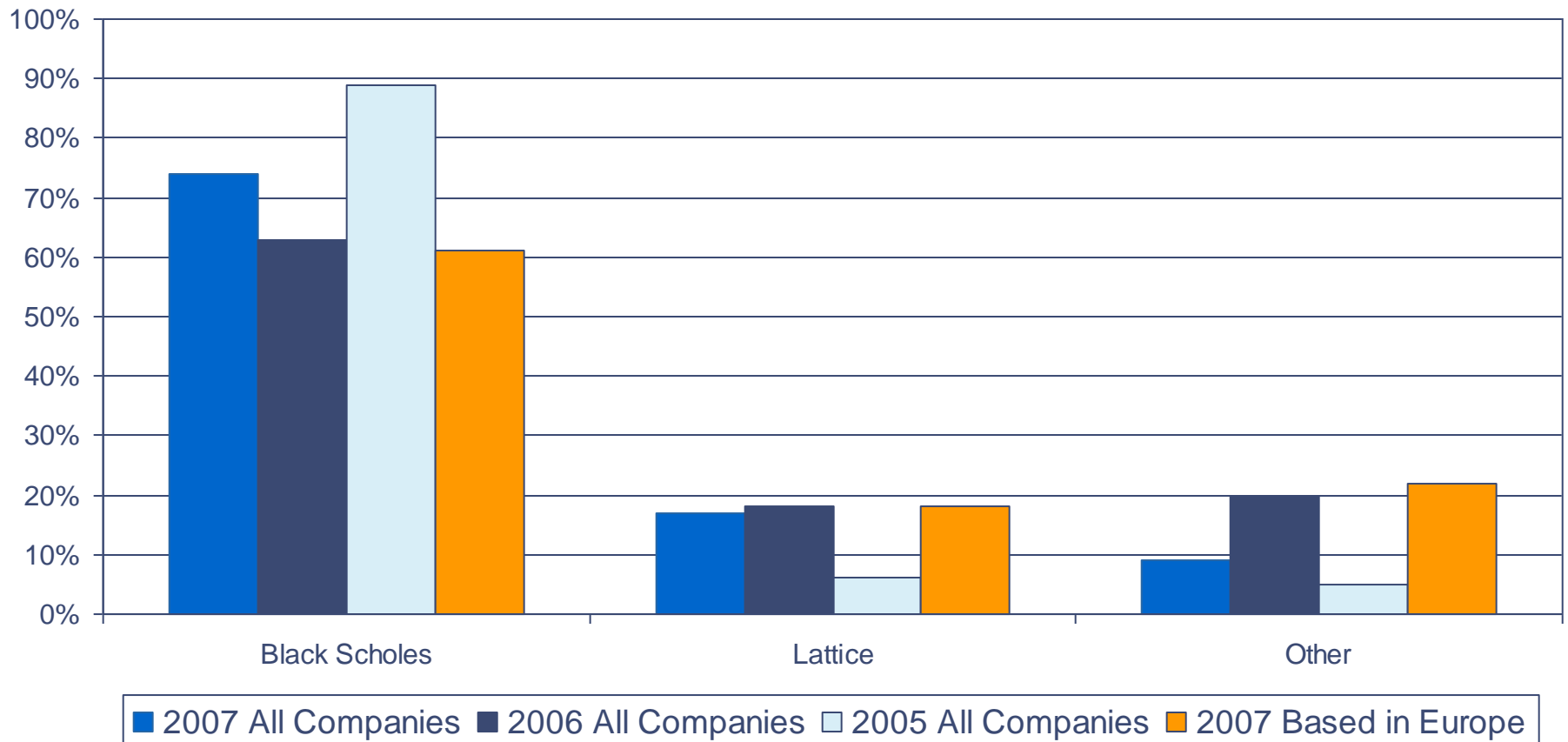
2007 Global Equity Incentives Survey

Valuation Models

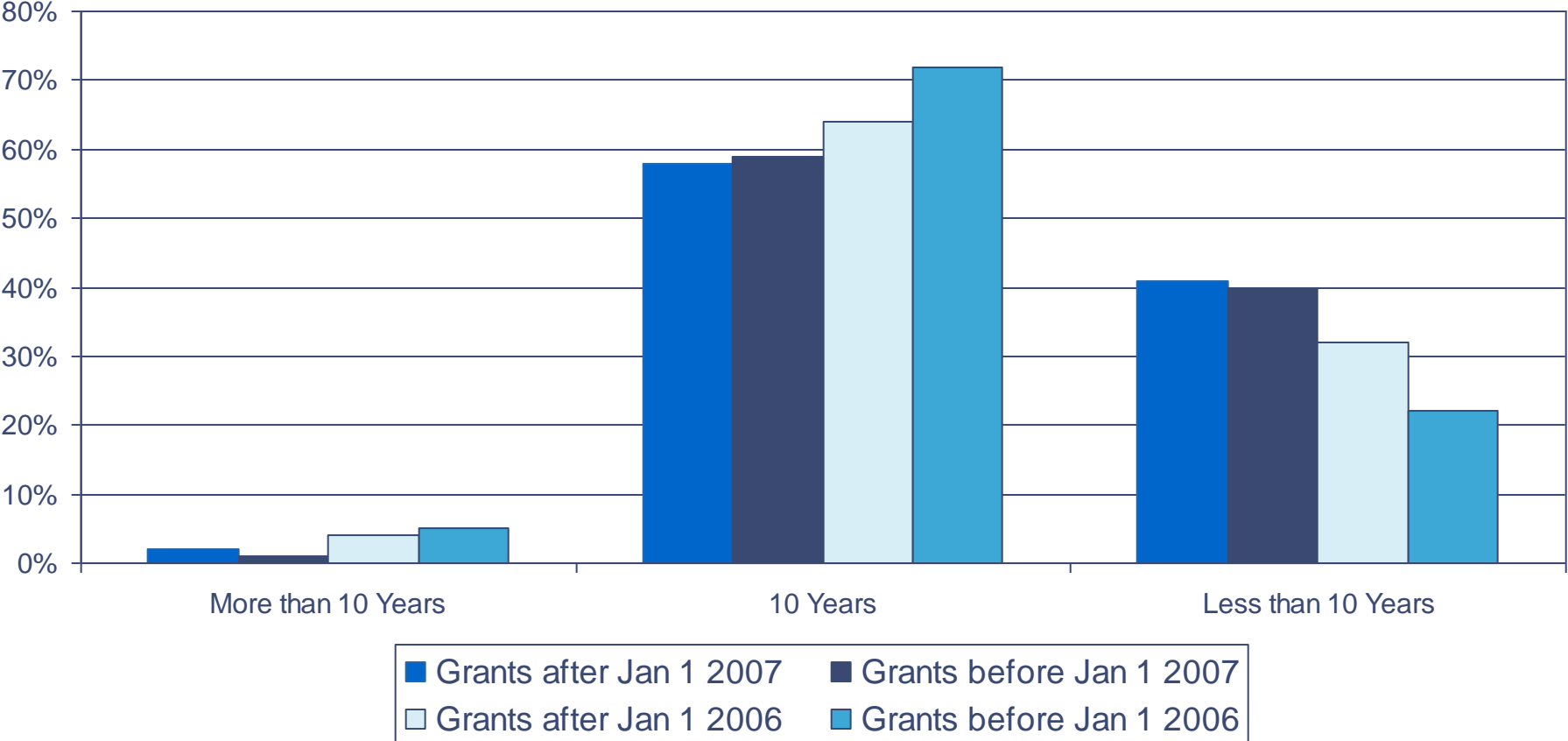
- Resurgence in use of Black Scholes Merton valuation model
- Changes in long standing norms of option contractual term
- Assumptions used in option pricing

Which valuation model do you use to value your service/time based stock option grants?

Valuation Model

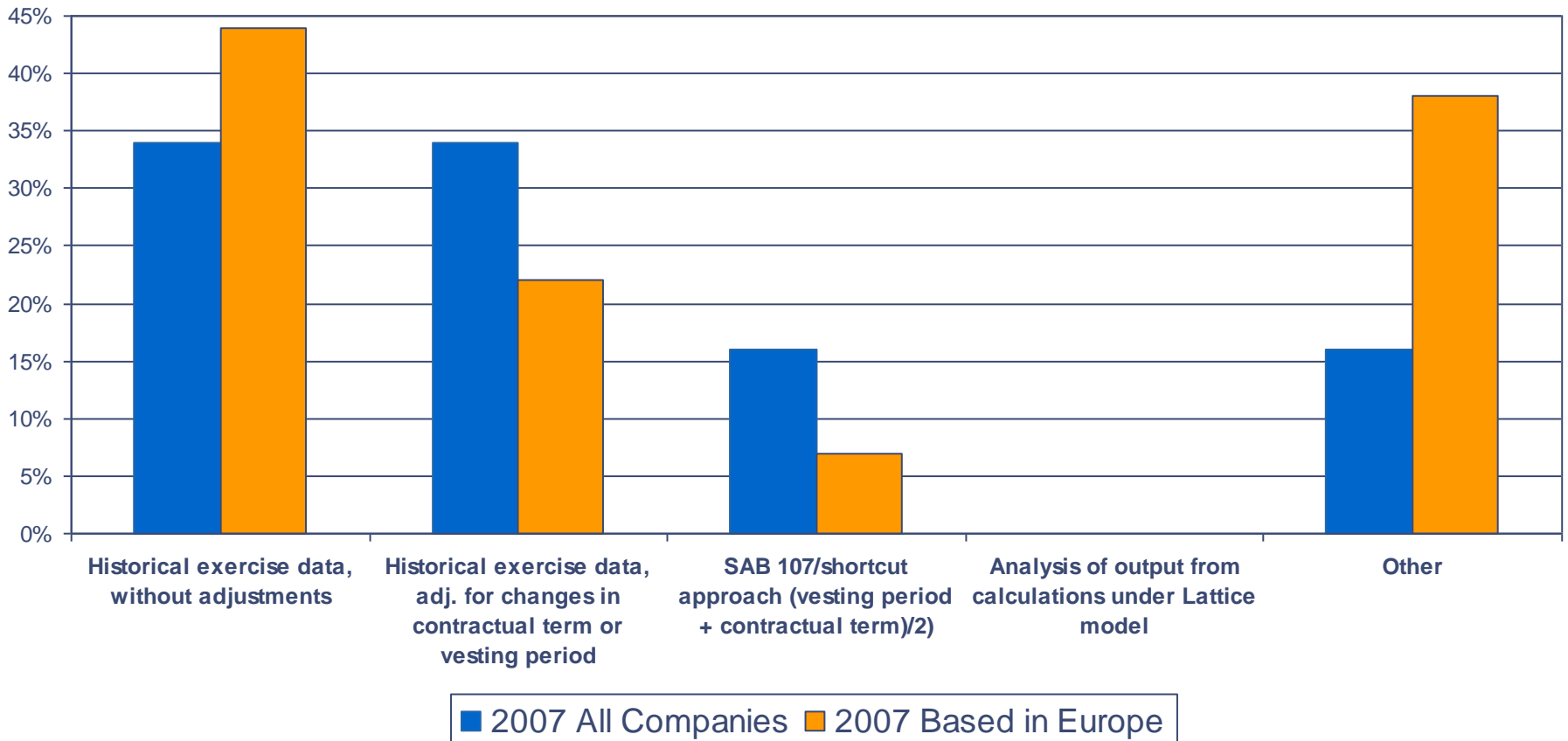


Option Term (contractual life) All Companies



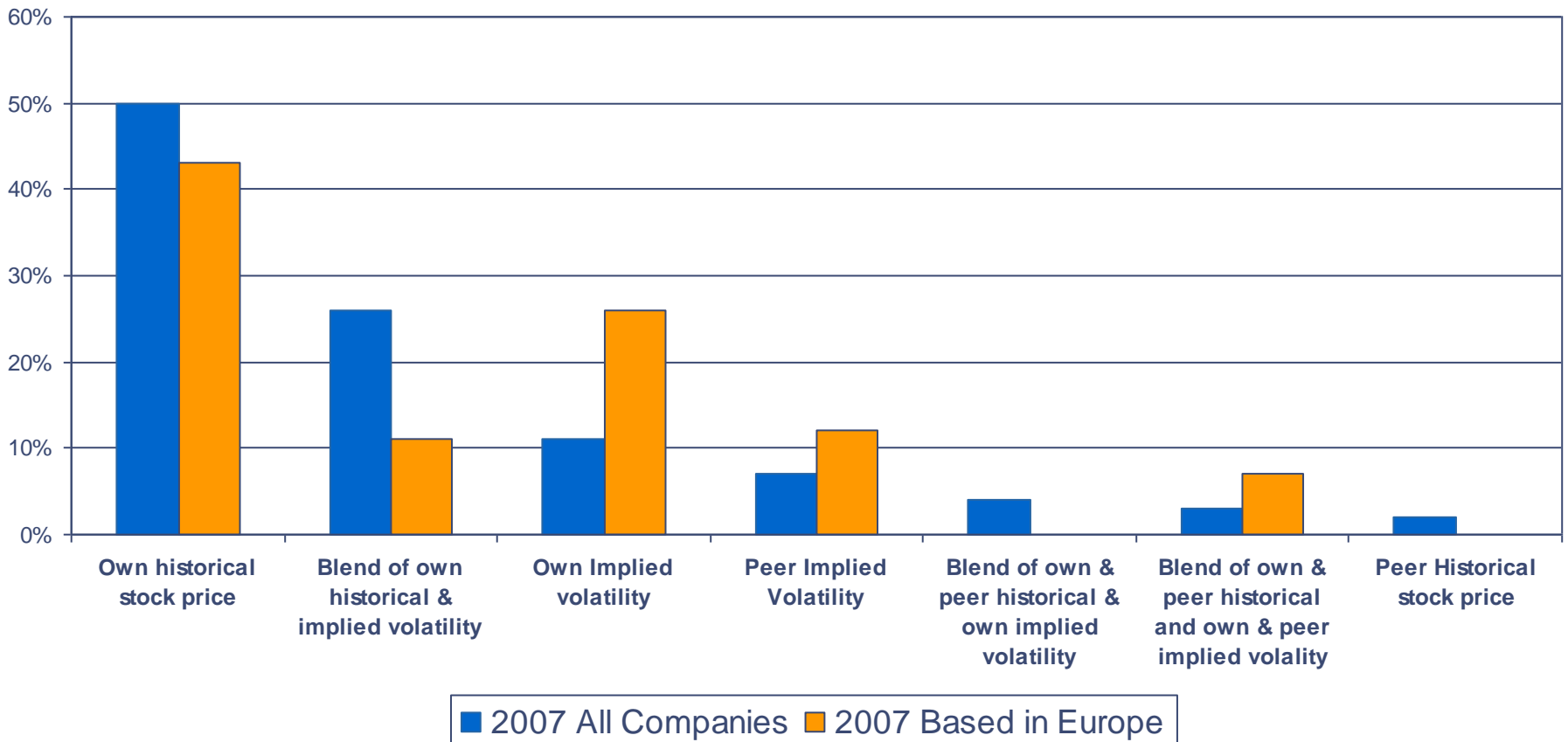
If you use the Black Scholes valuation model, how did you pick your expected term assumption?

Expected Term Assumption

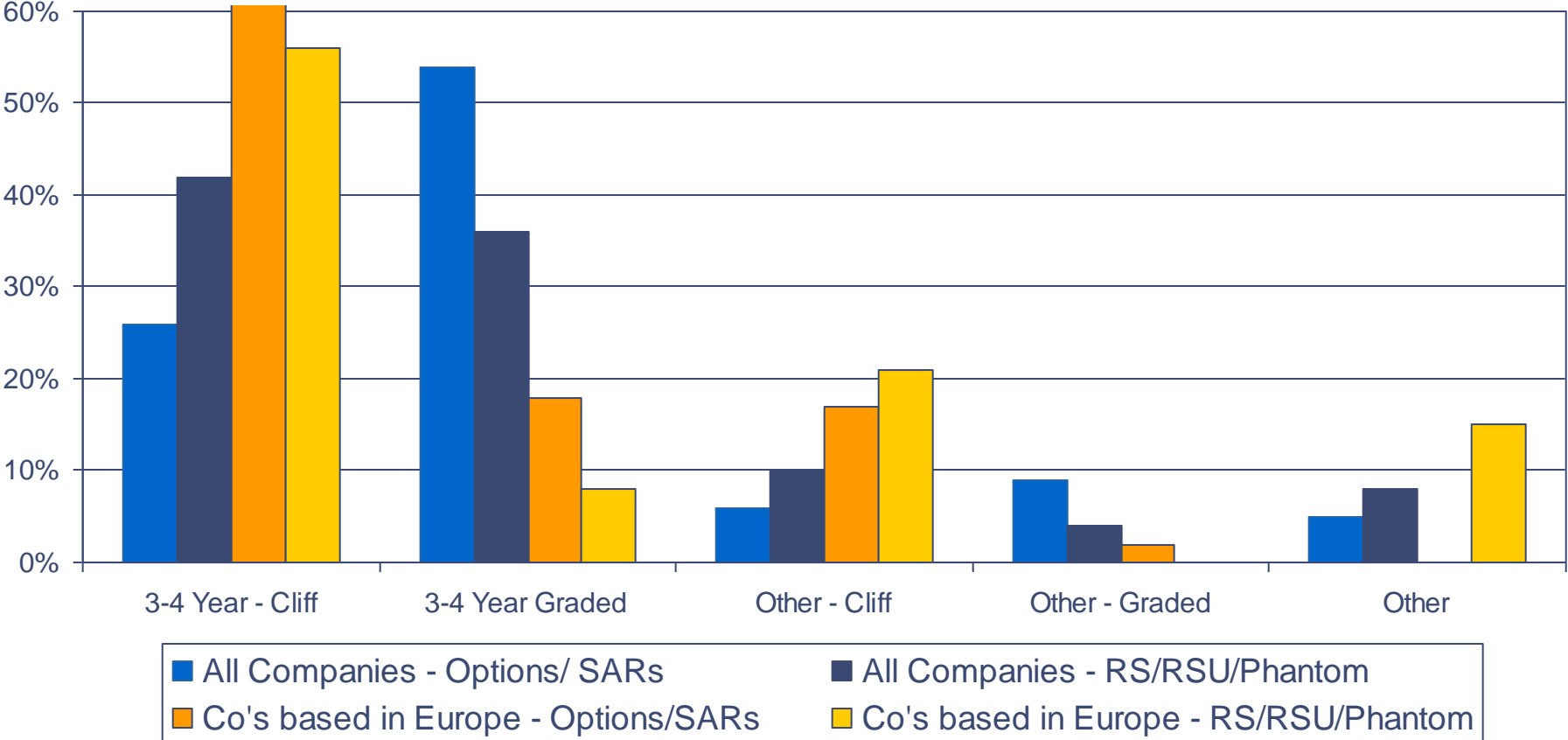


Did you pick the volatility assumption used in your option valuation model?

Volatility Assumption



Vesting Period – All Companies



CPE Question 4

Would you like to participate in the 2008 Global Equity Incentives Survey?

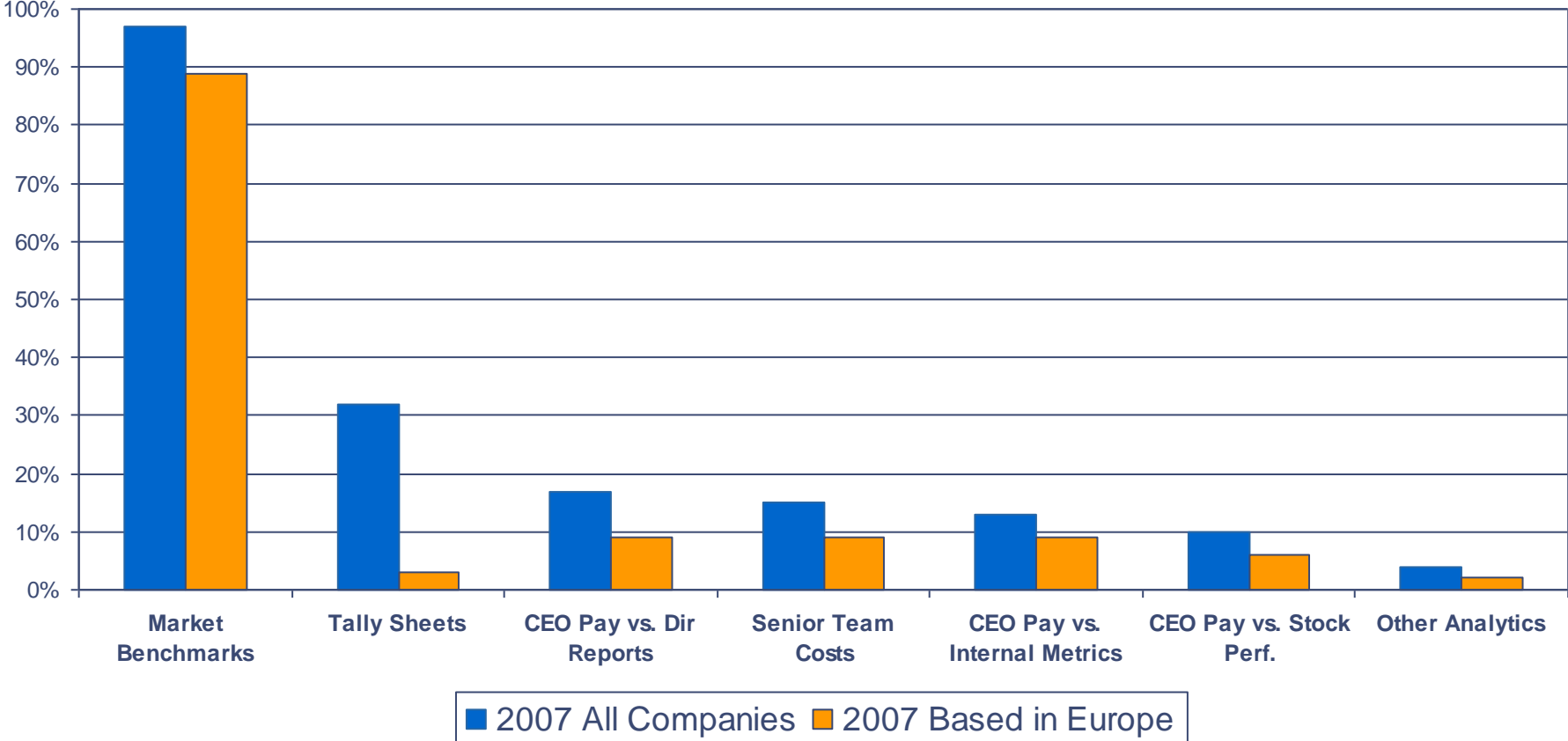
- Yes (send email address to surveyadmin@us.pwc.com)
- No

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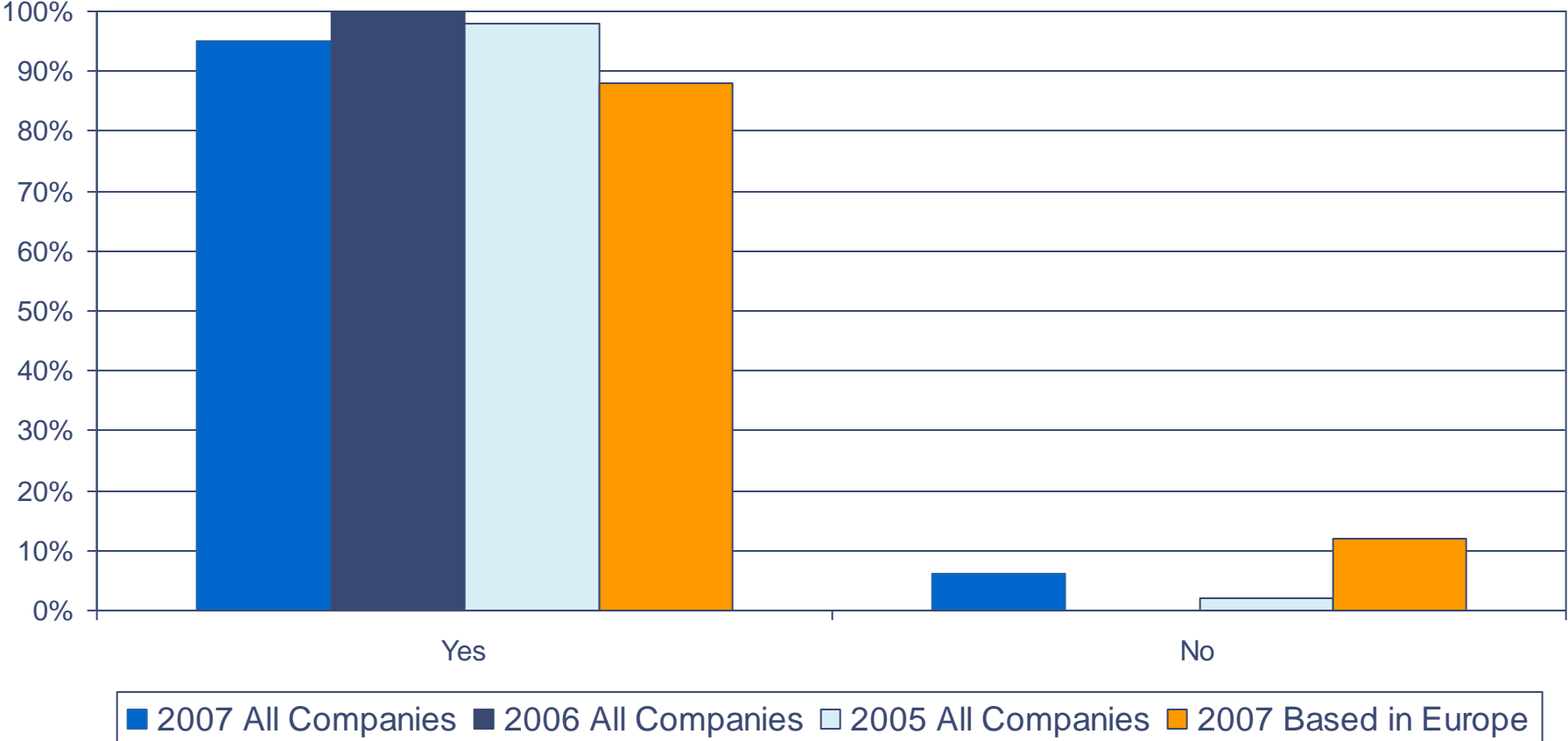
Governance & Policy

- High prevalence of benchmarking, growing use of tally sheets, particularly among All Companies
- Increase in Shareholder activism
- Increasing modification of grant sizes among employees outside country of company headquarter

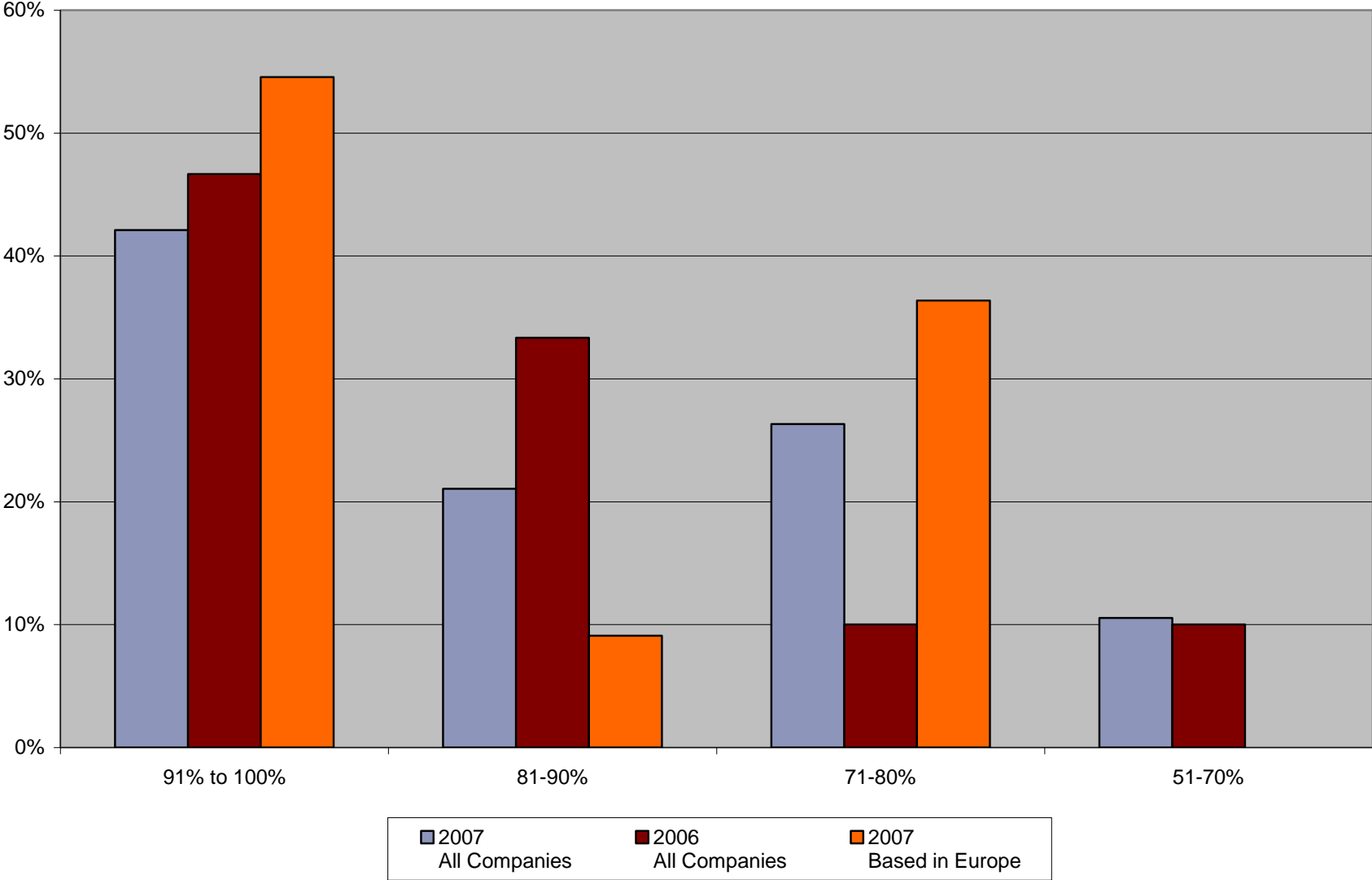
Analytics used to Track Executive Compensation



If you have taken your equity compensation plan (or modification to it) to the shareholders for approval, was it approved?

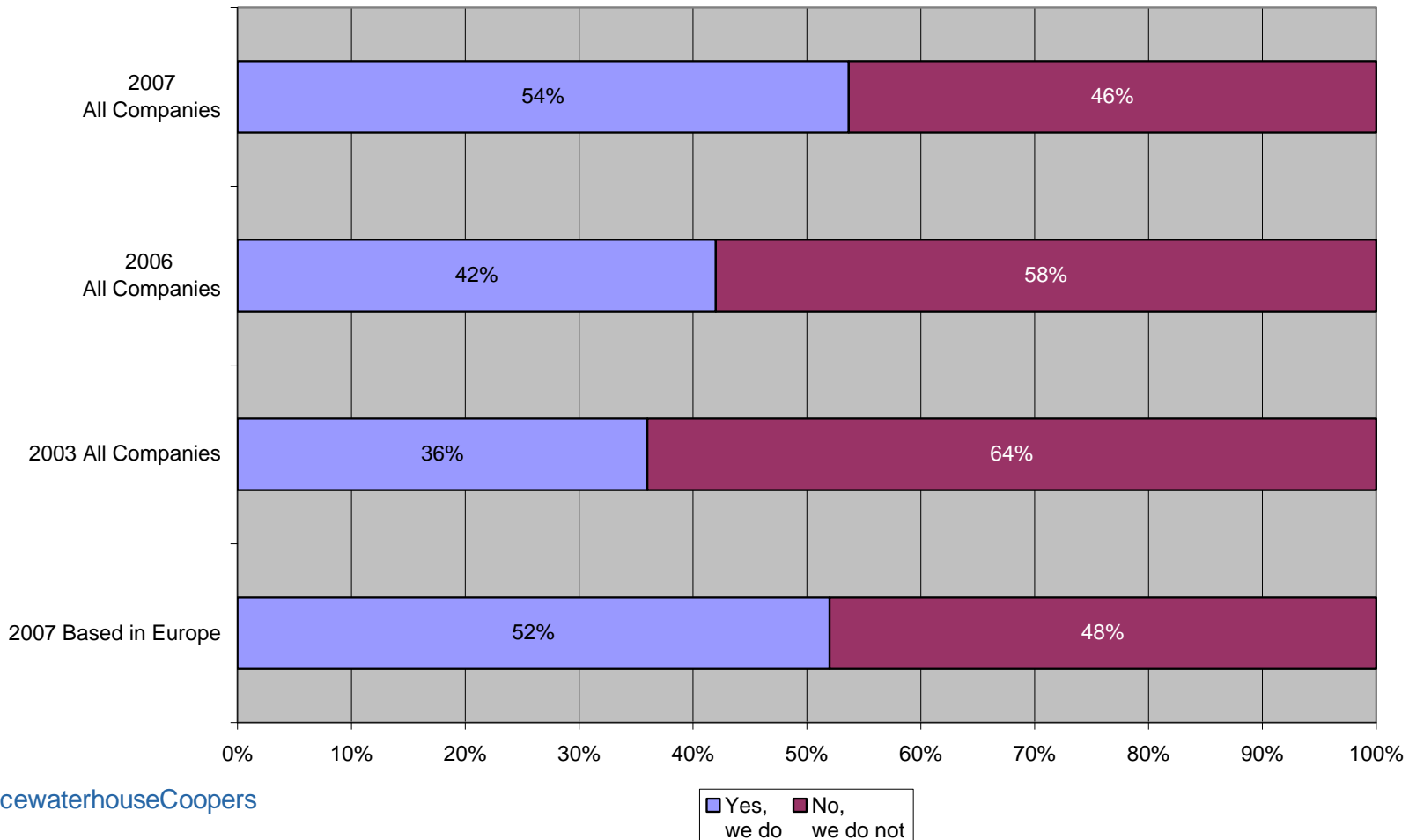


Plan Approved by What "Yes" Vote?



Have you modified your equity compensation plans in any way, specifically for grants in other countries? (e.g., vesting, eligibility, term, tax-favored treatment, etc.)

Modify Grants Outside HQ Country

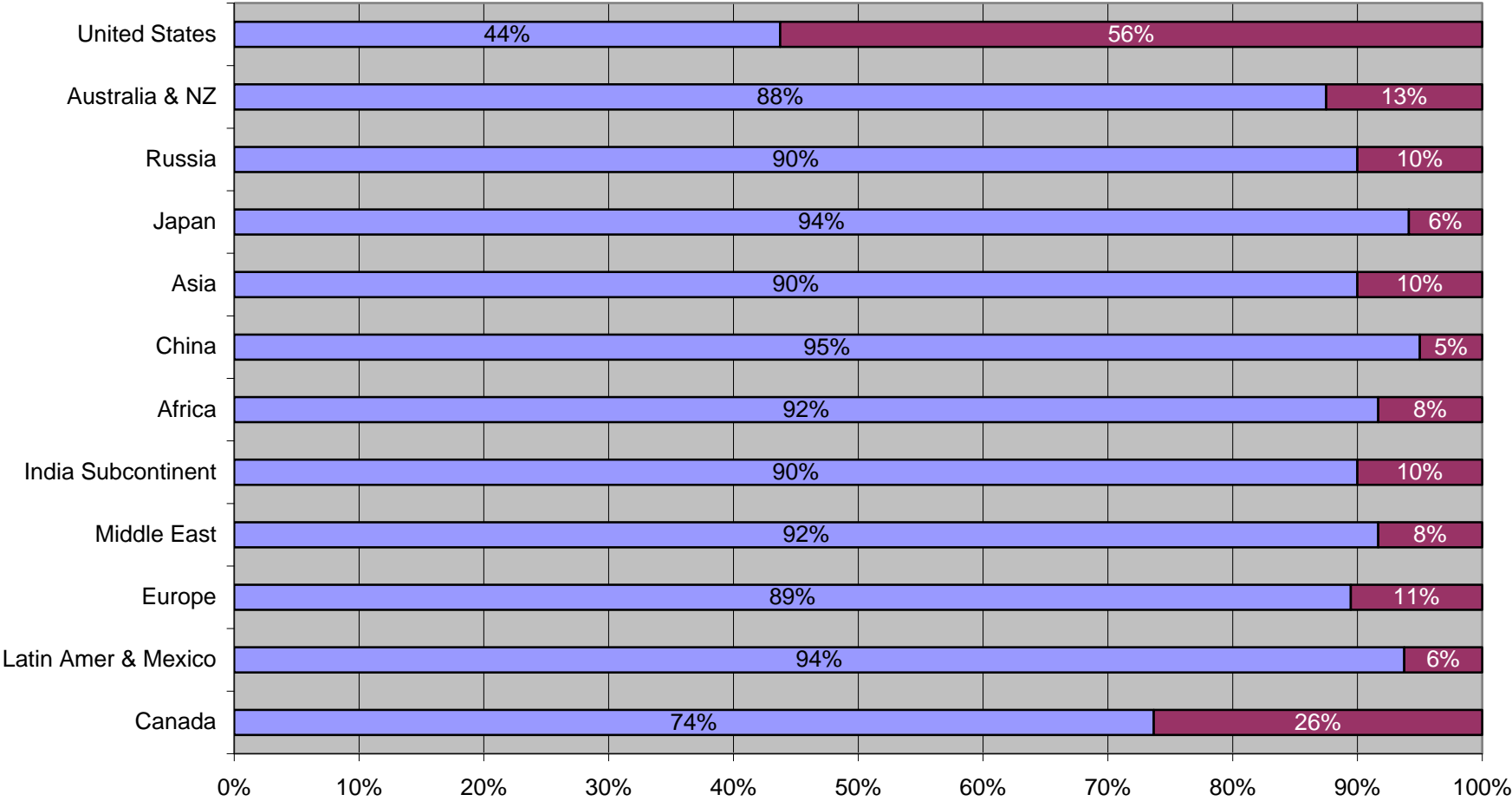


2007 Global Equity Incentives Survey Results

Participants generally report modifying the grant size by making a reduction (discount) of the grant sizes made to employees in the country where company is headquartered. The US and Canada are exceptions. (actual % discount/premium not shown in chart below)

Discount or Premium?

All Companies



CPE Question 5

Would you like to receive a copy of the 2007 Global Equity Incentives Survey Full Report?

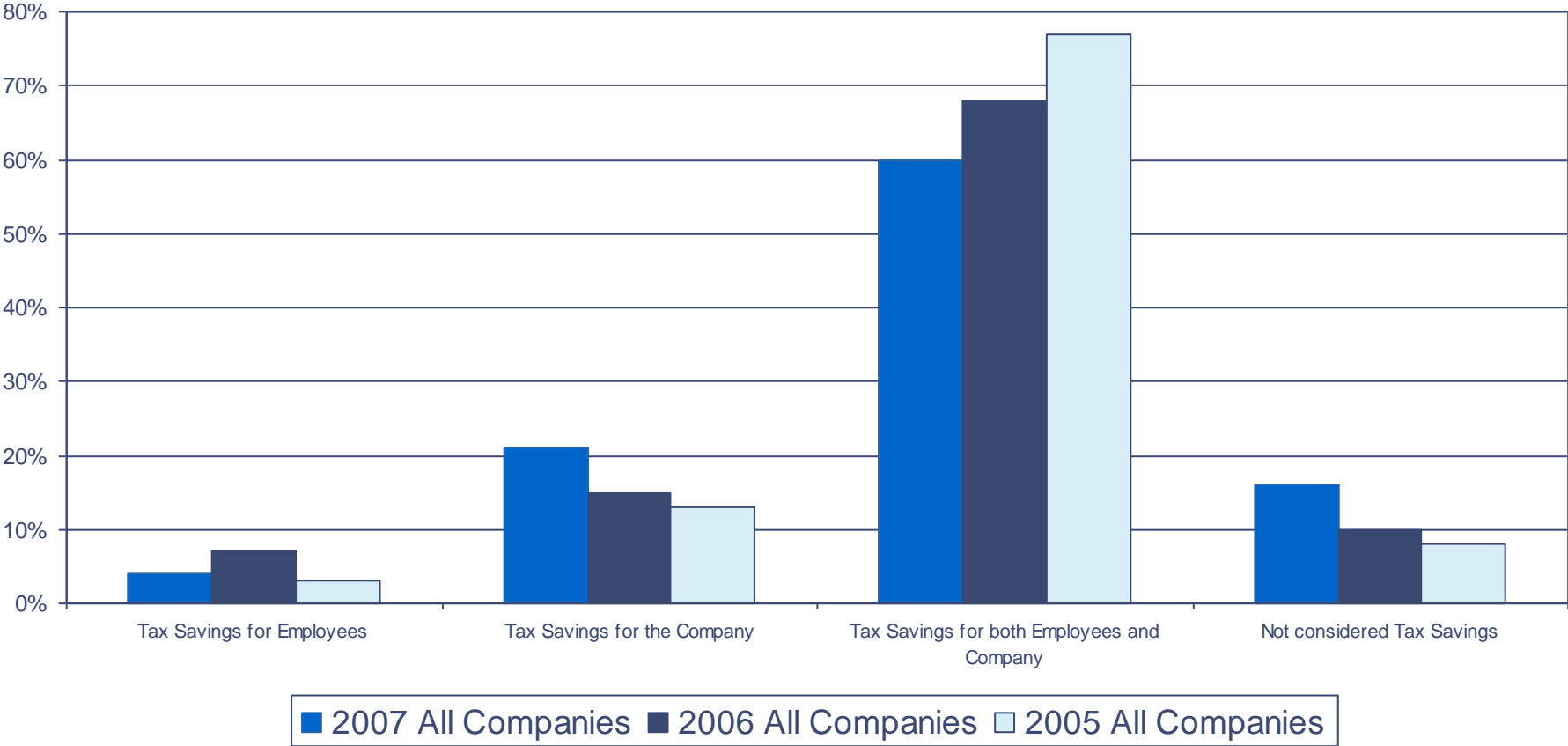
- Yes (send email with contact information to surveyadmin@us.pwc.com)
- No

2007 Global Equity Incentives Survey

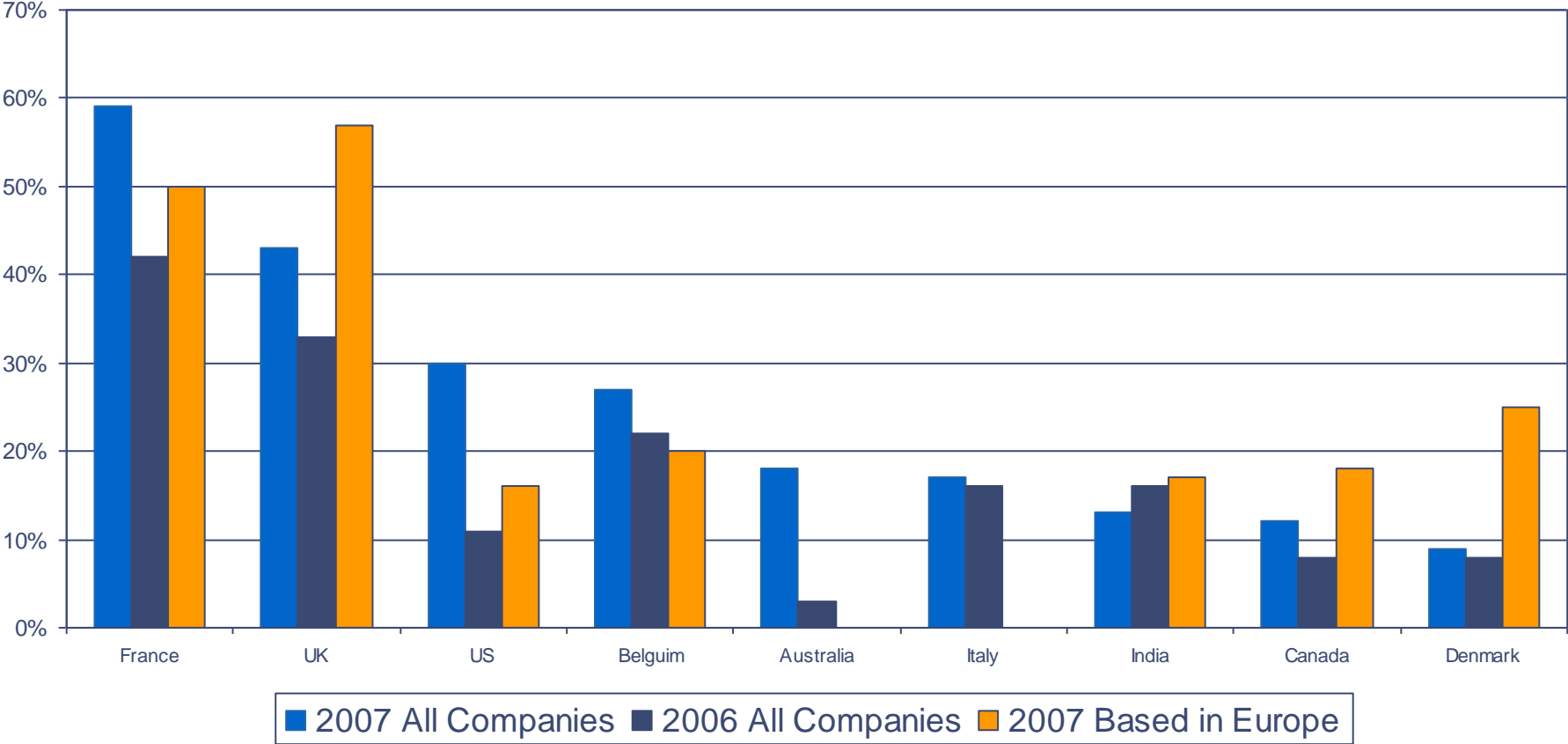
Tax Issues

- Ramifications of equity plans leading to increased interest among Tax professionals
- Use of locally tax qualified plans and chargeback agreements to mitigate expense
- Ongoing difficulty of tracking employee mobility across borders
- Audit trends and proactive steps

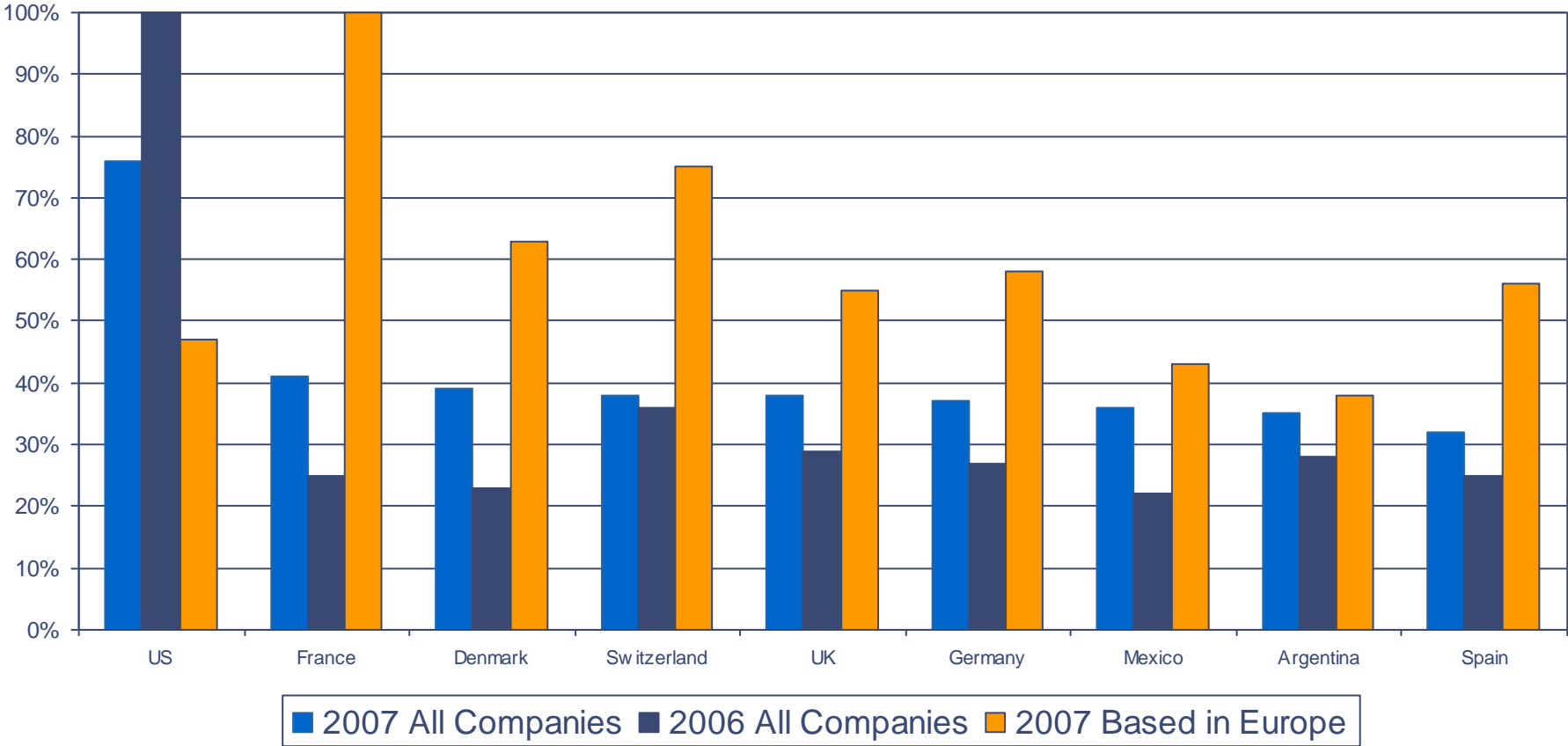
Highest Tax Priority?



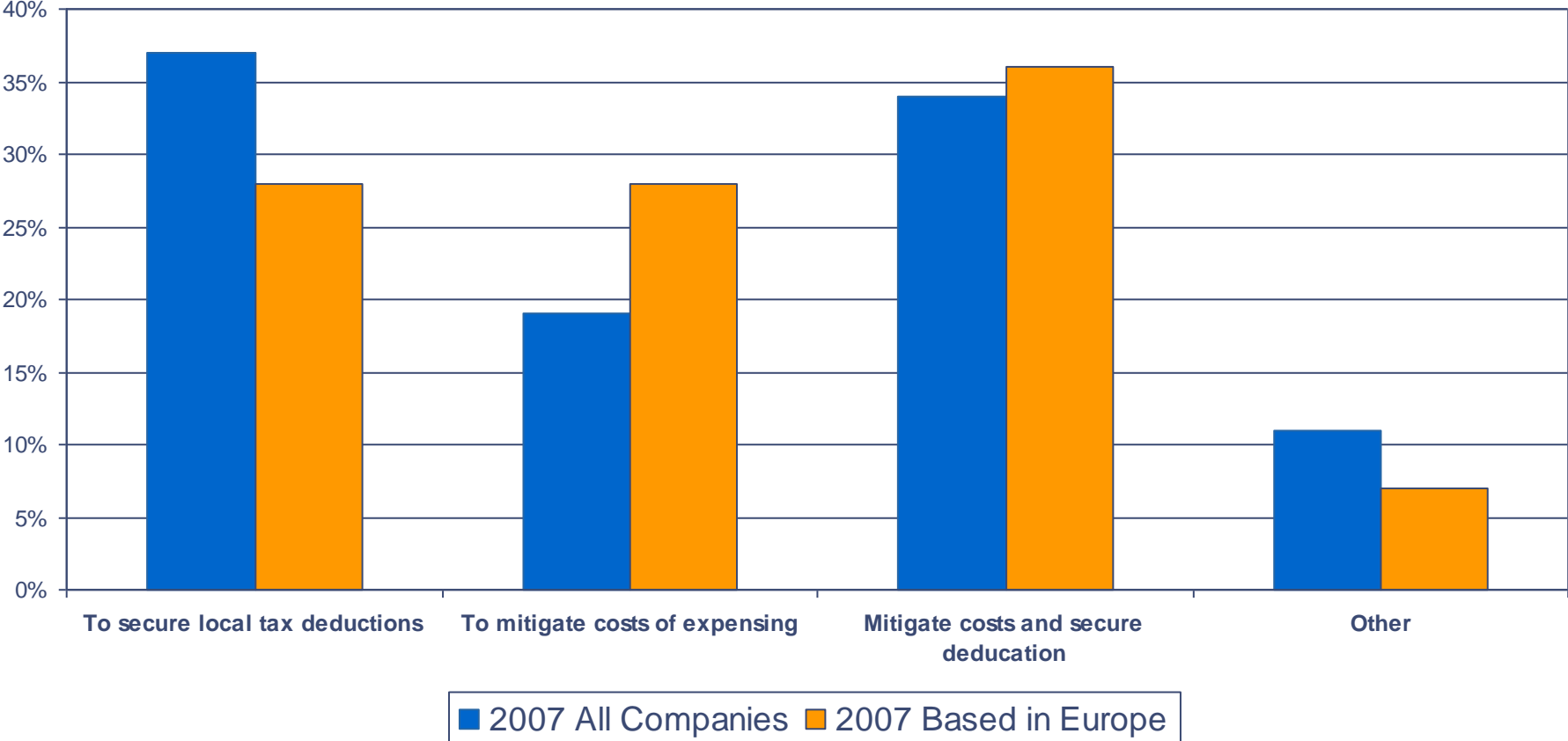
Prevalence of Locally Tax Qualified Plan Most Frequently Cited



Prevalence of Chargebacks by Country

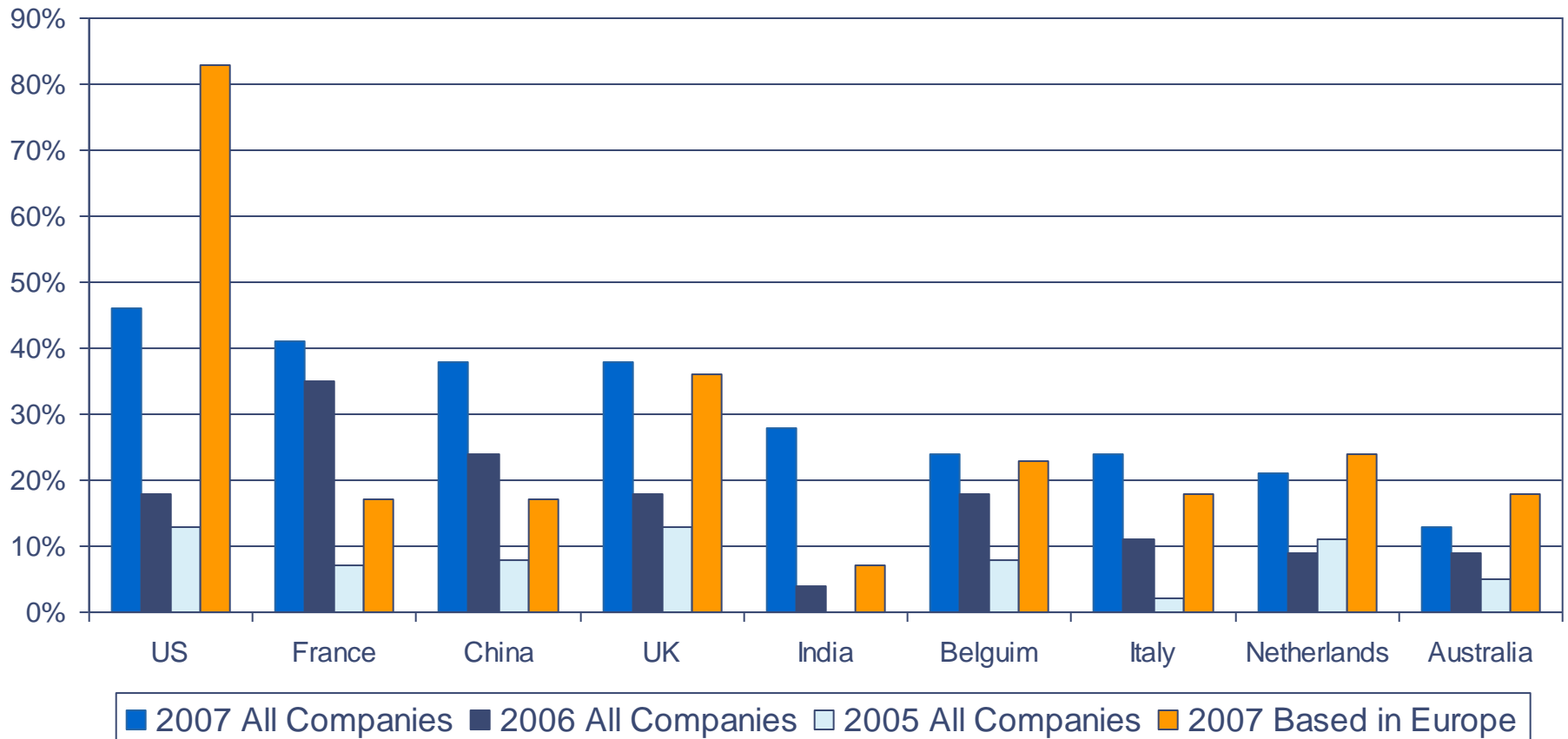


Reasons for Chargebacks



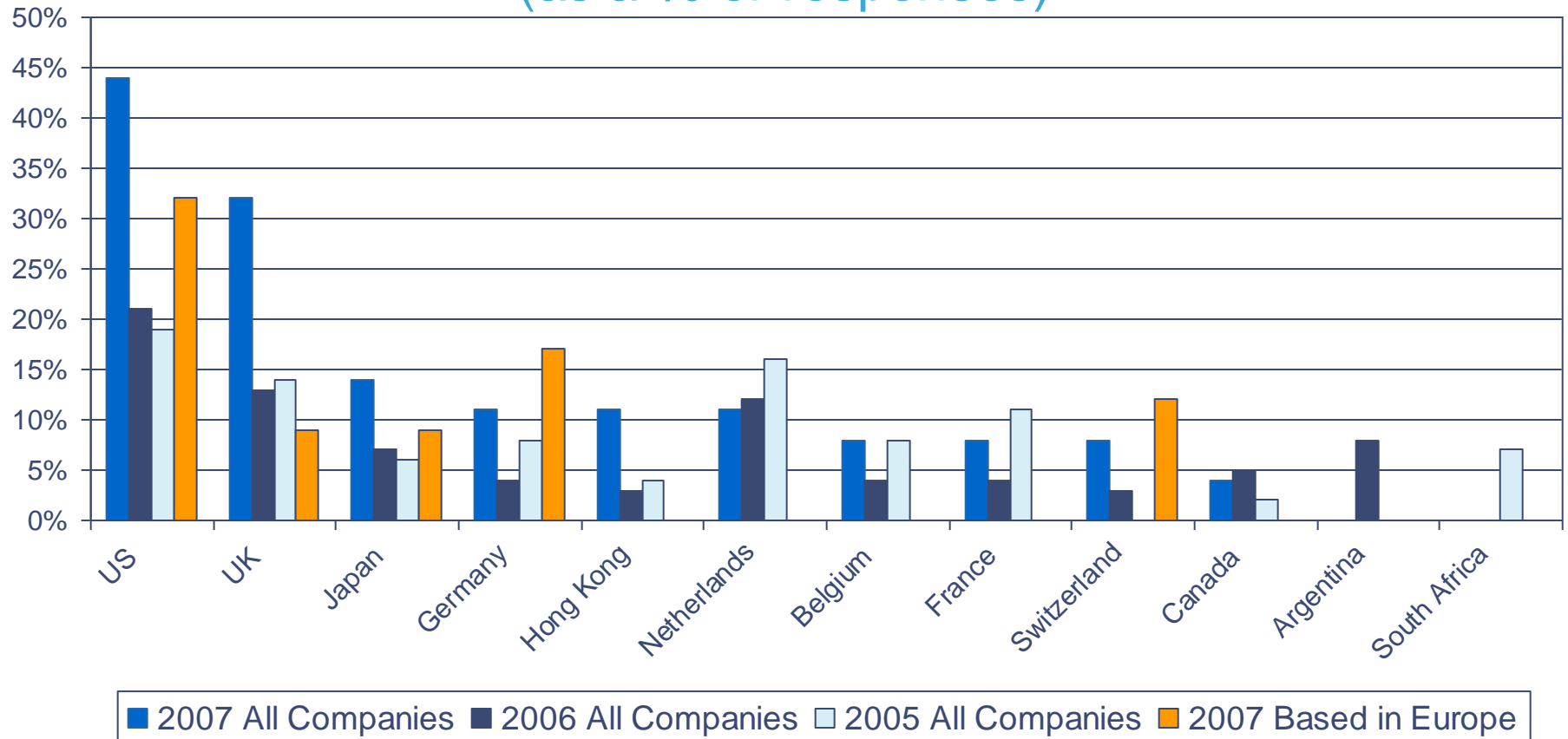
Countries with Most Challenging Tax Compliance

For Companies with Employees in..



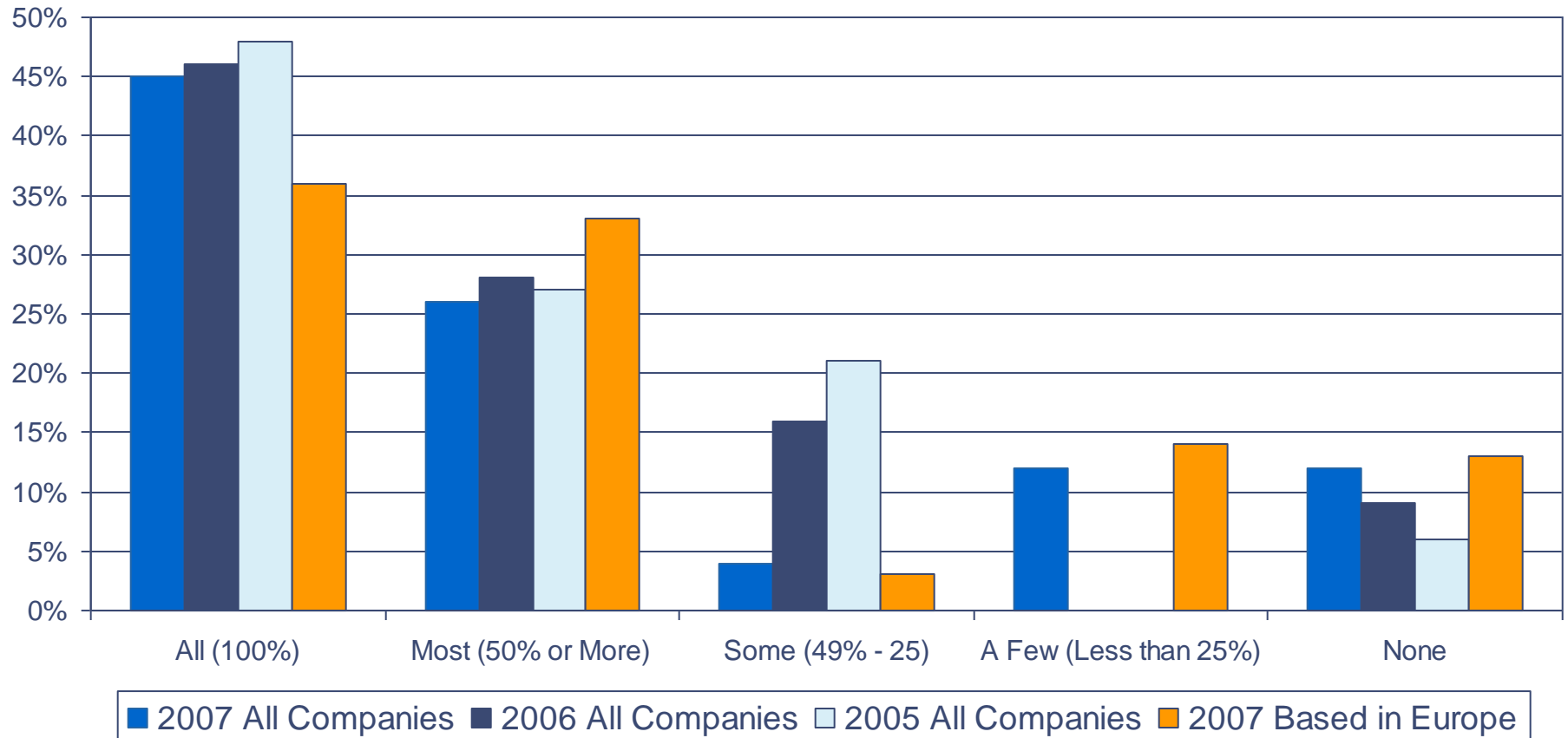
In the past 3 years, has your company been audited by the tax authorities of any of the following countries in regards to your stock-based plans?

Audited in Last Three Years?
(as a % of responses)



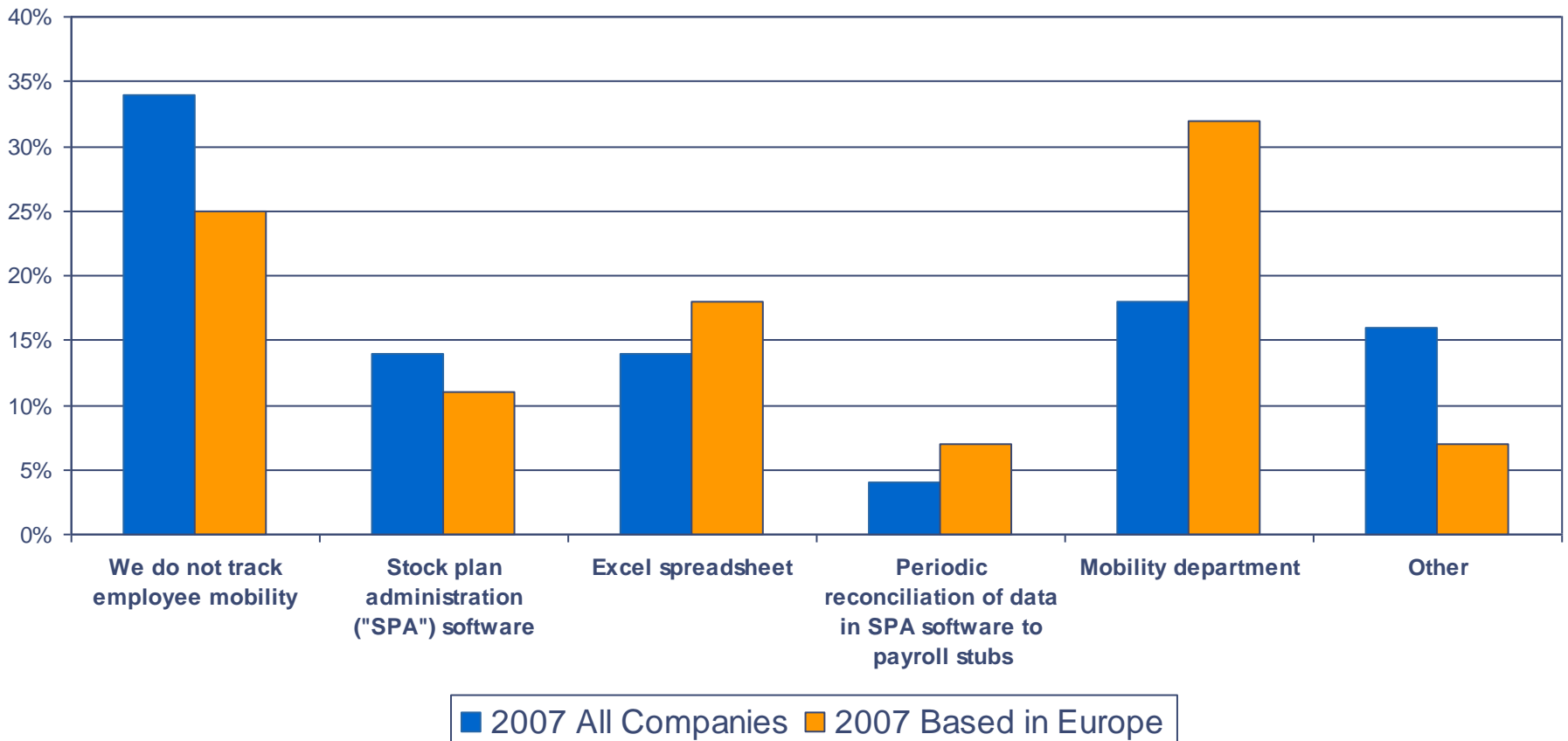
In approximately what percentage of the countries in which you have equity compensation plans have you conducted a compliance review?

Internal Compliance Reviews



How does your company track the movements of expats from grant to settlement?

Track Expats?



For more information on the Survey or custom indexing,
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