



LYONS, BENENSON & COMPANY INC.
MANAGEMENT CONSULTANTS

LB&Co. Critical Checklist For Compensation Committees

INDEPENDENCE ISSUES

- Is the Committee made up of at least three Directors, all of whom meet the SEC and stock exchange, 162(m), and 16b-3 requirements for independence?
- Does the Committee charter specify meeting requirements?
 - Frequency
 - Quorum
 - Permitted attendees
- How are appointments to the Committee determined?
 - Is the Chairman designated by the Board?
- Is the Committee empowered to:
 - Set its own rules, policies, procedures and agendas?
 - Engage its own independent consultants and advisers?

COMPENSATION PHILOSOPHY

- What should drive compensation in our company?
- How do we define our competition for executive talent?
- Do we regularly evaluate the appropriateness of our peer group?
- How should our compensation program and levels be positioned relative to our competition?
- What is the desired relationship between pay and performance?
- What mix (fixed vs. variable; short- vs. long-term incentives; cash-based vs. stock-related; etc.) of compensation is optimal for us?
- What effect does our compensation philosophy and program have on the value of our shareholders' investments in our company?
- Are we at all vulnerable as a result of our approach to compensation?
- What are the key performance drivers and the leading indicators for our company?
- Should performance goals translate into returns that exceed the company's cost of capital?
- Do the performance measures and goals used in our incentive compensation plans align properly with our strategic, operating and financial plans?

LEGAL AND REGULATORY ISSUES

- Are our compensation programs in compliance with the requirements set forth under the Sarbanes-Oxley Act, the Jobs Creation Act, the Internal Revenue Code and other applicable laws and regulations?
- Is our approach to compensation meeting our stock exchange listing requirements?
- Is our accounting for equity-based compensation in conformance with FASB rules?
- Have we taken steps to ensure that we are taking advantage of the performance-based exemption, provided for in Section 162(m) of the Internal Revenue Code, on compensation in excess of \$1 million?
- Does the Committee review management succession plans at least annually?

RISK ASSESSMENT

- Do any of our compensation programs encourage excessive risk-taking?
- Has management demonstrated an understanding of the risks inherent in our business?
- Do our compensation programs reflect awareness of all inherent risks?
- Do we use different performance measures for our short- and long-term plans?
- Do we provide for delayed monetization of awards and the possibility of clawbacks?

COMPENSATION FUNDAMENTALS AND STRUCTURE

Base Salary

- Is there a systematic approach to position evaluation that underlies the salary structure?
- Are we satisfied that the position evaluation plan is yielding results that are internally equitable and fair?
- Are our salaries competitive in the market place?
- Do we have a formal approach to annual performance appraisal for executives?
- What role should annual performance appraisal play in setting executive salaries?

COMPENSATION FUNDAMENTALS AND STRUCTURE (cont'd)

Annual Incentives

- Are annual bonuses based on an objective, formula-driven approach or are bonuses discretionary?
- What degree of discretion or flexibility should the Committee have in making incentive or bonus decisions?
- Has the annual incentive plan been submitted to shareholders for approval?
- Are annual bonuses predicated on overall corporate performance results or are bonuses based on a combination of corporate, business unit and individual performance?
 - What company-wide and business unit performance measures are used in determining incentive plan results?
 - Are performance goals absolute or is performance indexed or compared to the performance of a peer group of companies?

Long-Term Incentives

- What types of long-term incentive compensation plans are in place?
 - Stock Options? ISOs or Non-qualified?
 - Stock Appreciation Rights?
 - Restricted Stock?
 - Performance Awards, Shares or Units?
 - Contingent Cash Awards (also referred to as LTIPs)?
- Are any of the various forms of long-term incentives predicated on performance other than share price?
 - What performance metrics have been considered and/or used and for which forms of long-term incentives?
- Have the long-term incentive plans been submitted to shareholders for approval?
- Are all such plans administered by the Compensation Committee, another committee of the Board or the full Board of Directors itself?
- Who is eligible for long-term incentives?
 - Is there a clear connection between their performance and the company's long-term performance?

Benefits

- What is included in the company's program of employee benefits?
- How do we assess the competitiveness and adequacy of each program element?
- Do we offer any benefit programs that are not available to all employees?

Perquisites

- Is there a sound business reason for providing any perquisites?
 - If so, what perquisites do we provide and to whom?
- Are we accounting for, and reporting on, perquisites properly?

Tally Sheets

- Is there an annual review of tally sheets for key executives?

DIRECTORS' COMPENSATION

- Is there a formal program covering the compensation of non-employee Directors?
- What are the elements of the Directors' compensation program?
 - Board and committee retainers?
 - Board and committee meeting fees?
 - Committee chair retainers?
 - Special service fees?
 - Equity (options, restricted stock or restricted stock units)?
- How is the Directors' compensation program set?
- Is the compensation program appropriate given the duties, responsibilities and risks associated with serving on the Board?
- Is the compensation program in tune with the most recent trends and developments in Director compensation?
- How often is the Director compensation program reviewed?

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