



2007 EXECUTIVE COMPENSATION CHECKLIST

Executive compensation has evolved quickly in recent months. Increased shareholder scrutiny, concern over consistency with broad-based employee pay-for-performance plans, and new Securities and Exchange Commission (SEC) disclosure requirements are all putting considerable pressure on the Board, the Compensation Committee, and corporate Human Resources to have a deliberate and well articulated executive compensation strategy.

In our continuing effort to provide independent and strategic insight, Presidio Pay Advisors has compiled a checklist of critical items companies should consider as they prepare for their next fiscal year. The following checklist will help companies address many of the critical issues raised by FAS 123R, the Sarbanes-Oxley Act of 2002 and the new SEC disclosure rules:

Draft a compensation philosophy and objectives for the company's executive compensation programs.

- Discuss the elements of executive compensation
- Outline how these elements link to company performance
- Discuss why these elements were chosen and how they relate to one another

Purpose:

A detailed narrative of these points will be required by the new SEC disclosure rules.

Responsibility:

Compensation Committee and corporate Human Resources

Conduct a competitive analysis of all components of executive compensation.

- A detailed analysis covering your peer group and published compensation survey data will provide a comprehensive understanding of competitive levels of pay and the balance of each pay element across the total compensation package.

Purpose:

New SEC disclosure rules require a discussion on how a company determines the amount of each component of executive compensation. Having a clear methodology and competitive data will reinforce the Compensation Committee's oversight of critical compensation issues on behalf of shareholders.

Responsibility:

Compensation Committee

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❑ **Review the current stock option and equity compensation usage and strategy against the competitive market and the remaining pool of options available for grant. Recommended analysis includes:**

- Current overhang/dilution analysis
- Historical annual grant rate/run-rate analysis
- Future annual grant rate/run-rate analysis and modeling
- Exploring the benefits of alternative equity-based compensation vehicles

Purpose:

Stock options and equity-based compensation are now required to be recognized on the income statement. Alternatives to stock options may be necessary given the company's pool of reserved shares, competitive practices, management's sensitivity to the impact of equity-based compensation on the company's financial statements, and shareholder sensitivity to dilution.

Responsibility:

Compensation Committee, corporate executive management, and corporate Human Resources

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❑ **Evaluate the performance measures and payouts of the annual bonus plan for executives**

- Determine if bonus plan performance measures align with shareholder and company success
- Define the company's threshold, target, and maximum payment levels in accordance with competitive practices

Purpose:

The new SEC disclosure rules outline a series of policy issues that may be considered material to the disclosure, including those items listed above. In addition, the SEC and shareholders are closely monitoring pay-for-performance practices. A clear, thoughtful analysis will provide the Board and Compensation Committee with the necessary foundation of due diligence to address issues that may arise during the fiscal year.

Responsibility:

Compensation Committee and corporate Human Resources

ABOUT PRESIDIO PAY ADVISORS

Presidio Pay Advisors provides companies with thoughtful, independent, strategic advice and support on a wide range of compensation issues. Our collective expertise is comprehensive, encompassing the diverse array of human resources, finance, accounting, regulatory, and shareholder perspectives.

We assist with the competitive assessment, design, implementation and communication of:

- Total Compensation Strategy
- Annual Cash Incentives
- Long-Term Equity and Cash Incentives

This memo is intended as a summary of the subject matter and should not be relied upon for legal advice. Questions regarding the information contained in this memo should be directed to one of the following Presidio Pay principals:

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