An Open Letter to Corporate Board Compensation Committee Members from Connecticut State Treasurer Denise L. Nappier

April 11, 2006

Dear Compensation Committee Members,

I am writing to you in my capacity as the principal fiduciary of the Connecticut Retirement Plans and Trust Funds (CRPTF) and as a Board Member of the Connecticut Chapter of the National Association of Corporate Directors.

The purpose of this correspondence is to outline a series of factors that compensation committee members should consider, prior to anticipated final adoption of Securities and Exchange Commission (SEC) rules on executive compensation disclosure, which would serve to better prepare corporate boards – and ultimately their shareholders – for the commencement of such rules. These suggestions are offered constructively, based on the CRPTF’s experience in engaging companies on executive compensation issues in recent years.

Executive compensation is an important investor issue, because it is considered to be a "window" into the inner working of the board. Investors are interested in understanding how the board determines appropriate incentives to maintain and attract talented and skilled leadership, and at the same time hold board members accountable for the specific value their efforts achieve for the company, short-term and long-term.

Were the SEC to adopt its proposed rule, shareholders and the public would, for the first time, have access to executive compensation data that would be compiled in one document, written in plain English and include all types of compensation.

For some boards, transition to a new SEC disclosure landscape will be manageable and present great opportunities. For others, it may be more challenging. As we approach this new requirement, I urge committee members to utilize the proposed SEC rule for a “trial run,” and in that exercise, consider the nine factors I have outlined in the attached list as a starting point.

Additionally, I would urge compensation committee members who do so to communicate the progress of their efforts openly to investors, as a means of bolstering confidence in the board’s preparedness to adhere to new disclosure rules.

A likely by-product of such a new disclosure framework would be increased scrutiny by investors regarding compensation committee members' decisions and policies, especially where there is an apparent disconnect between pay and performance, and where compensation is perceived to be excessive.

All too often, the disconnect between pay and performance is glaring. I believe this disconnect often occurs when compensation committee members rely on CEO peer compensation or total shareholder return, to the exclusion of internal pay equity. Boards should make their own judgment as to what is considered fair pay for top executives, with consideration given to the compensation provided to others within the company.

The notion of internal pay equity gets at the issues of the company's philosophy about compensation and how the skill levels and functions of top leadership are uniquely rewarded for their contribution, as compared to other workers.

As these decisions are made, investors are increasingly beginning to scrutinize the independence of compensation consultants working with board members, having learned the dangers of a lack of independence from the conflicts of interest in auditing and consulting practices that were exposed by past corporate scandals. I would anticipate that shareholders will also be focusing on the level of accountability of the committee for their compensation decisions.

For these reasons, I believe it is exceptionally important that corporate compensation committees begin to prepare for the new regulatory environment regarding compensation disclosure. As board members, you are the stewards of investors' interests and, in my view, are on the brink of an unprecedented opportunity to enhance investor confidence in the corporate community.

Now is the time to act decisively, to ensure that the transition to new, broader disclosure regulations will work to the greatest advantage of the company and its shareholders.

Sincerely,

Denise L. Nappier

Denise L. Nappier
Connecticut State Treasurer

Attachment

Recommended Factors to be Considered by Compensation Committee Members in Preparation for New SEC Disclosure Policy

Compensation committees should use the SEC's proposed rule as a "trial run" for the anticipated new, broader executive pay disclosures, and act now to consider the following factors:

1. The degree to which the current compensation package is tied to performance, including identification of performance metrics presently in place.

2. The methodology utilized by proxy voting and consulting firms in rating your company's compensation package.

3. The various roles and responsibilities of the Compensation Committee, the Board, and management in the development, determination and approval of executive compensation policies and awards. Also consider the role of consultants, if applicable.

4. The independence of consultants used by the Compensation Committee, including whether other work is performed for the same company, and who within the company made the decision to hire.

5. The ongoing policies for tax gross-ups and disgorgements when company financials are restated, as well as payments for severance and mergers and acquisitions.

6. The way in which perquisites have been disclosed and valued in previous company disclosures.

7. The parameters outlined in the Compensation Plan for internal pay equity between top executives and senior management.

8. The existing policy regarding communication with shareholders on compensation issues.

9. The company's track-record on the subject of re-statements of financials related to previous compensation awards being adjusted to accurately reflect new financial information.