

In the land of Executive Compensation, Santa Claus will not be visiting many executives this year. "Naughty children do not get presents", we were warned. So it is for the banks, some of whose leaders have "voluntarily" given up their bonuses for this year.

But it is not just bank executives who are out of a job, or worry they soon might be. The knock-on effects of the credit crunch mean many others will have job worries during this festive season. Many employees are adopting the approach of "I'm just keeping my head down and hoping for the best".

These are unusual times and call for innovative executive compensation solutions. We are busy helping many companies adapt their remuneration strategies to fit the current circumstances.

Motivating Executives in today's business circumstances

In too many companies, TSR and EPS have been used as proxies for management performance and not very good ones at that. LTIPs must recognise shareholders' interests but, since managers can only manage things under their control, their incentives should not be based solely on targets they can't affect.

It is a Board and Remuneration Committee responsibility to choose performance measures that motivate managers and produce alignment with long term shareholders.

There are arguments for and against changing the performance targets. We can help you decide what is best for you.

Life in the Boardroom

We offer our thanks to the 376 Chairmen and Non-Executive Directors who completed the questionnaire for our unique annual survey, now in its 19th year, of NED's fees and their views on life in the boardroom. The number who filled in the survey is 33% up on last year, which is testimony to the survey's continuing importance.

The survey report will be published in January.

Budget Update

The UK Pre Budget Report announced an intention to raise income tax to 45% with an additional 1.5% NI making the effective rate 46.5%. Employer's NIC (currently 12.8%) is on top of this.

However capital gains tax is only 18%, so there will be increased pressure to compensate via shares taxed as capital gains.

Many companies use employee trusts and we foresee greater usage of such arrangements. If you are not already doing this, do contact us.

Executives will want to make the maximum use of the UK HMRC approved tax effective schemes. The annual maximum for SIPs is £7,500 shares, and £3,000 for SAYE options. CSOPs have a maximum award of £30,000 at the date of grant. Such amounts are not life changing, but prudent executives will want to maximise their tax planning opportunities.

Latest News

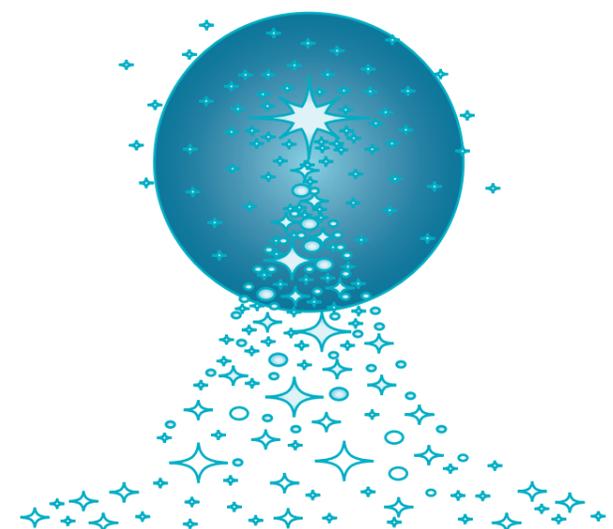
MM & K, Hanson Green and Directorbank launch the new 2009 Chairman and Non Executive Director survey.

Higher Talent HR search specialists publish first newsletter.

MM & K publish survey of Executive Directors Total Remuneration.

For the full articles please go to www.mm-k.com.

Seasons Greetings
from all at



Share Plans - A once in a lifetime opportunity?

The credit crunch and c 30% drop in the FTSE100 index over the past year (more for smaller companies) could be viewed as an opportunity.

A launch of an SAYE, SIP or the grant of EMI or HMRC approved share options could provide a once in a lifetime opportunity for employees to acquire shares at today's prices, which might turn out to be unusually low. (Please note MM & K Limited is authorised and regulated by the Financial Services Authority but cannot provide personal financial advice; share prices can go down as well as up; previous performance is not necessarily an indicator of future performance).

Companies should be planning how best to use this remuneration opportunity.

A 3 or 5 year SAYE option has no risk for the employee, is hugely tax efficient and could create huge employee loyalty. The worst that can happen, if the share price drops, is that employees cancel their SAYE contracts and get their money back.

A SIP can improve company cash flow. A company match of 1 share for each 2 purchased can have a similar accounting charge as an SAYE plan and provides significant downside protection for employees as well as the chance to share in future success.

Share Plans Administration and Management

We undertook a very interesting exercise with a FTSE 100 company who wished to appoint an external administrator of its share plans. We project managed the whole process for the client who was able to achieve considerable cost savings with agreed high quality service levels.

For another FTSE100 client, we successfully project-managed the roll-out of their employee share plans to Australia, Canada, Dubai, Hong Kong, New Zealand, Singapore and most of Eastern and Western Europe.

MM & K employees granted options over MM & K shares

In October we granted options to employees so that all employees with more than one year's service and directors either own shares, have options or both. The options granted were tax effective EMI options with 10 year life vesting after three years. Our objective is to incentivise and reward our employees and allow them to share in our success.

Racing, Rugby and Massage

In April 2008 we entertained over 100 clients and friends at a party at the Globe Theatre to celebrate the first 35 years of MM & K and the launch of Higher Talent.

In September the whole of the MM & K office, along with clients went to Sandown Races. Some of us won and others learnt more about the dangers of gambling! But we all had a fun day out.

We also took a small party to watch the University Rugby Match at Twickenham in December. In response to criticism of our male orientated event, we are planning a nail manicure and massage evening event in January at Jo Malone!

Remuneration Committee Dinner

"Motivating Executives in today's business circumstances" and other issues were debated vigorously at our Remuneration Committee Dinner on 25th September attended by fifteen Chairmen, Chief Executives and Remuneration Committee Chairmen.

A note of the key learning points is on our website.

www.mm-k.com

New Clients

34 new clients appointed MM & K in 2008. They are large and small, quoted and private, mostly UK but some are overseas based from as far away as Kazakhstan, with a number based in the Middle East.

The common theme is that they want high quality strategic pay advice, which we provide through our experienced consultants.

Thought Piece - Allow more stable shares to be used in incentive schemes?

There are two major issues affecting share schemes in 2008. Firstly, the credit crunch and the flight from equities, has seriously damaged the value of share or option holdings for executives. Secondly, the change in the Capital Gains tax, from 10% to 18%, which affects most share schemes, has significantly cut the benefit to employees of accepting share incentives and bonuses rather than cash.

If, as some think, the current credit crunch continues for at least two years, this is going to make issuing more employee shares or options under existing schemes, or the establishment of new schemes, very difficult.

A problem already exists for some executives who wish to encash their holdings, as there simply isn't a robust enough market in many small company shares to absorb these disposals; unless the employer guarantees to buy back the shares into an ESOP Trust. This leads to a second problem. If the company offers a preferential buy back, it would advantage employee shareholders against others, and although it is unlikely in SME companies that an outside shareholder would bring a case demanding the same treatment for their shares as executives are offered for their EMI or other Option shares, it is obviously a possibility. A solution to both these problems might be to issue non-ordinary shares to executives.

If it was possible to offer convertible preference shares, closely related to but less volatile than ordinary shares and carrying a guaranteed dividend as ESOP and option currency, this could overcome the equal treatment of all equity shareholders problem.

Ever since approved options and share awards were introduced, initially in 1972 by Edward Heath, cancelled in 1974 with Harold Wilson, and reintroduced in 1978 under the Lib/Lab Pact, they have been based exclusively on ordinary shares. With the completely changed business circumstances of the 21st century, when executives will not be so interested in volatile and difficult to dispose of rewards, but will be interested in a decent return, preference or convertible shares yielding, say, 2-3% above LIBOR, and a specific redemption date, might be a much more attractive proposition than equity.

As far as we know, this is not an idea that has been suggested elsewhere, but we do think in the changed economic circumstances, particularly for small companies, some creative thought needs to be given to the use of more stable shares if they are going to continue to be seen as an attractive incentive currency so that cash can be retained in the business.

We plan to raise this issue with interested parties and if a consensus emerges we will lobby for a change to the legislation.

Additional Services from MM & K

TheShareOptionCentre

TheShareOptionCentre (TSOC) is a trading division of MM & K which administers discretionary share plans for a range of companies who find it cheaper to outsource the administration to our specialist team. TSOC has a new web-based administration system, which includes an online portal, so employees can see their awards/options and exercise them online.

www.theshareoptioncentre.com

higher talent

HR SEARCH SPECIALISTS

Higher Talent, our specialist HR search and recruitment subsidiary, was launched in April and is building its reputation. It has 3,000 HR professionals on its database, enabling us to provide clients with high quality shortlists of candidates quickly and cost effectively. This model of recruitment is proving to be attractive in today's environment and neatly supplements our more traditional search model.

www.higher-talent.com

mm & k HR Partner

MM & K offers HR support including audits of HR policy and procedures, performance management and training needs analysis to a wide range of companies. Currently HR Partner provides long term support to existing clients and is continually developing new relationships.

HR Partner has recently launched a joint marketing campaign with Higher Talent offering full support to organisations through change, restructuring, redundancy and outplacement.

If you have an HR problem or query, please contact Rob Jarvis to discuss your needs:

robert.jarvis@mm-k.com www.mm-k.com