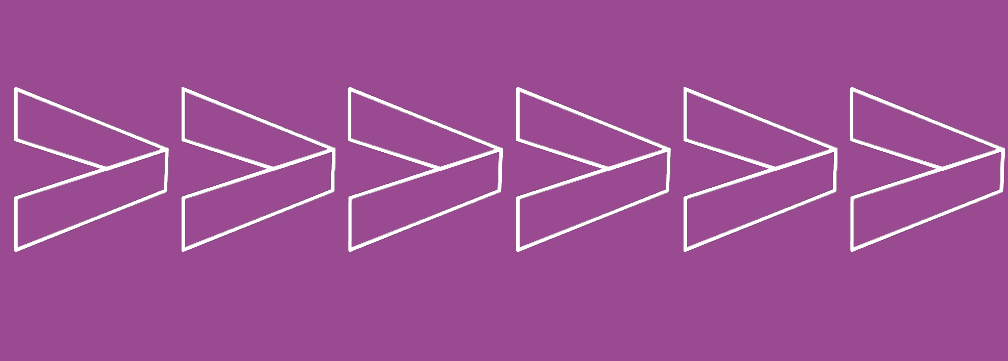


TOTAL 2013



Total Rewards 2014 Conference & Exhibition

Incentive Pay Face-Off: Are Public or Private Companies Winning the War for Top Talent?

Today's session will include interactive polling. Download the free AnswerQwik app from Google Play or Apple App Store, or access <http://AQPoll.com>
Poll ID: 103497



AnswerQwik Client
Apptimality, Inc.

Objectives of Today's Session

- > Compare and contrast incentive pay practices at public and privately held organizations and debate their relative merits.
- > Discuss how the selection and design of variable pay vehicles can support an organization's business model and goal.
- > Show the effectiveness of various types of rewards programs at attracting and retaining top talent.
- > Reveal data from surveys conducted by Deloitte Consulting LLP and Vivient Consulting LLC in collaboration with WorldatWork
 - Surveys collectively include >700 responses, representing >20 industries.
 - Common questions were included in both surveys in order to compare and contrast incentive pay practices at both types of organizations.



Panelists for Today's Session



HOULIHAN LOKEY

Karen Miles
Managing Director

Privately Held Company



Tonya Benjamin
Compensation
Manager

Publicly Traded Company



Sue Schroeder, CECP

**Incentive Pay Practices in
Privately Held Companies**



Sheila C. Sever, CCP

**Incentive Pay Practices in
Publicly Traded Companies**



Polling Question #1

What types of organizations are participating in the session today? Please select the one that best describes your organization.

- > A) Publicly Traded
- > B) Private, For-Profit
- > C) Non-Profit/Government





Overview of Calpine

Vision: ***To be the premier power generation company in the U.S.***

- > More than 2,100 employees: Calpine's fleet is flexible with the capability to respond quickly and reliably to address variable power demand when less reliable sources of energy cannot meet generation requirements
- > Calpine is the nation's largest:
 - Pure-play independent power producer (IPP) based on megawatts generated
 - Baseload renewable generator with 15 geothermal plants at The Geysers in northern California that have a generating capacity of 725 megawatts
 - Operator of natural gas-fired power plants, combined-cycle and cogeneration plants
- > Calpine operates one of the newest and cleanest fleets of natural gas power plants in the country
 - The average age of Calpine's fleet is about 13 years, compared to its IPP peers whose fleets' average ages range from 29 to 35 years

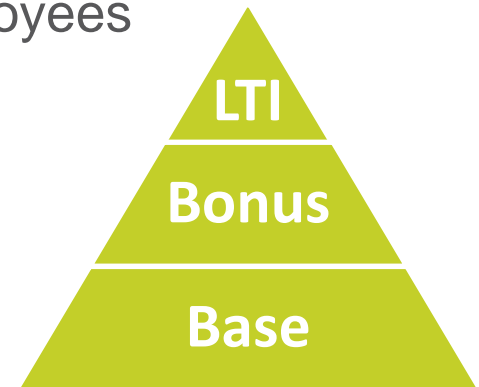
CALPINE[®] Compensation Philosophy

NYSE CPN

Calpine is committed to providing a **market-based, competitive compensation** package for all employees

> Calpine's pay for performance approach incorporates the following basic criteria:

- Base pay ranges set according to market and internal equity
- Every employee is treated equitably based on their contribution to the success of their department, location, business unit or the company as a whole
- Rewards employees with increases in base pay using individual performance and range penetration
- Rewards employees with the opportunity to earn higher-than-target bonus for outstanding individual AND company performance





Compensation Program

Calpine's *total compensation philosophy* is linked with our vision.

- Goal: attract, retain and motivate employees
- Three elements grounded in “pay for performance”

| Element | Target Competitive Positioning |
|----------------------|---|
| Base Pay | Above Market Opportunity – this forward looking approach supports recruitment and retention efforts of quality candidates and employees |
| Annual Incentives | Market Opportunity with upside for outstanding individual performance along with outstanding company performance |
| Long-Term Incentives | Market Opportunity with awards granted to all employees , provides ownership in the company in the form of company stock Offers upside to senior executives for outstanding individual performance along with outstanding company performance Calpine provides equity awards in the form of Restricted Stock Awards (RSAs) |



Overall Effectiveness

Has our compensation philosophy and program been effective?

- > Three key indicators
 - Employee retention
 - Talent acquisition
 - Employee satisfaction



HOULIHAN LOKEY

850 Employees in 17 Offices Worldwide



Corporate Finance

Mergers and Acquisitions

- Sell-side & Buy-side Transactions
- Leveraged Transactions
- Minority Equity Transactions

Capital Markets

- Debt & Equity Private Placements
- High Yield
- PIPEs Financings
- Liabilities Management
- Special Situations Advisory

Financial Advisory

- Fairness Opinions
- Solvency Opinions
- Valuation Opinions
- Transaction Advisory Services
- Tax & Financial Reporting Valuation
- Portfolio Valuation & Advisory Services
- Derivatives Valuation & Advisory Services
- Dispute Resolution & Financial Expert Opinions
- Forensic Services

Financial Restructuring

- Chapter 11 Planning
- Restructuring Debt and Equity
- Debtor-in-Possession (“DIP”) Financing
- Exchange Offers
- Plans of Reorganization
- Distressed Mergers and Acquisitions

Ranked Among Top 10 M&A Advisors for 10 Straight Years

| Rank | Advisor |
|------|-------------------------------|
| 1 | Houlihan Lokey |
| 2 | Goldman Sachs & Co |
| 3 | * JP Morgan |
| 3 | * Morgan Stanley |
| 5 | Bank of America Merrill Lynch |

* denotes tie.

Source: Thomson Reuters

No. 1 U.S. M&A Fairness Opinion Advisor Over the Past 10 Years

| Rank | Advisor |
|------|-------------------------------|
| 1 | Houlihan Lokey |
| 2 | JP Morgan |
| 3 | Duff and Phelps |
| 4 | Goldman Sachs & Co |
| 5 | Bank of America Merrill Lynch |

Source: Thomson Reuters

Advised on nearly 1000 Restructuring Transactions Valued in Excess of \$1.5 Trillion

| Rank | Advisor |
|------|---------------------|
| 1 | Houlihan Lokey |
| 2 | Lazard |
| 3 | Moelis & Co. |
| 4 | Blackstone Group LP |
| 5 | Rothschild |

Source: Thomson Reuters



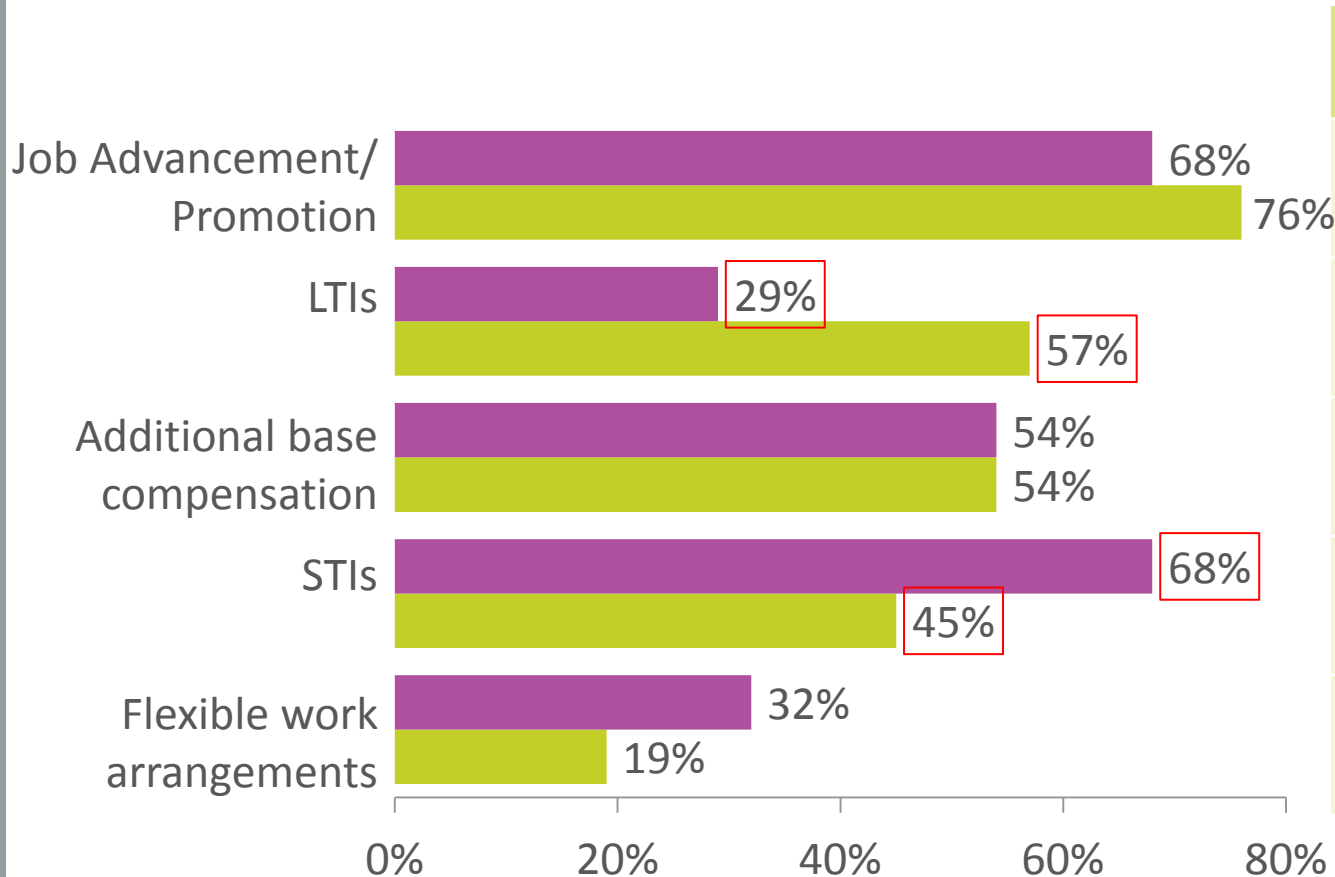
Houlihan's Compensation Program

| Element | Houlihan | Rationale |
|----------------------|---|--|
| Base Salary | <ul style="list-style-type: none"> • At market but de-emphasized | <ul style="list-style-type: none"> • Provides cash flow, but main focus is total annual compensation |
| Annual Incentives | <ul style="list-style-type: none"> • Market opportunity with significant leverage based on individual & firm performance • Incentives are paid at fiscal year-end and 7 months later • A portion of incentives are paid in restricted stock | <ul style="list-style-type: none"> • Is the key pay element • Recognizes annual contributions to firm revenue • Have retention hooks through the deferred payment |
| Long-Term Incentives | <ul style="list-style-type: none"> • Restricted stock granted in lieu of a portion of annual incentives • Grants based on formula of annual pay • Liquidity provided at a sale or retirement or paid out over several years after termination/separation | <ul style="list-style-type: none"> • Promotes long-term tie to company and opportunity for participation in a company sale • Becomes more meaningful with stock accumulation over time • Promotes internal teamwork |




The second most effective tool is LTIs for public companies and STIs for private companies

■ Private Companies ■ Publicly-Traded Companies



| Calpine | Houlihan |
|---------|----------|
| 1 | 2 |
| 2 | 3 |
| 4 | 4 |
| 3 | 1 |
| 5 | |





Short-Term Incentive (STI) Program

Prevalence and Key Design
Features

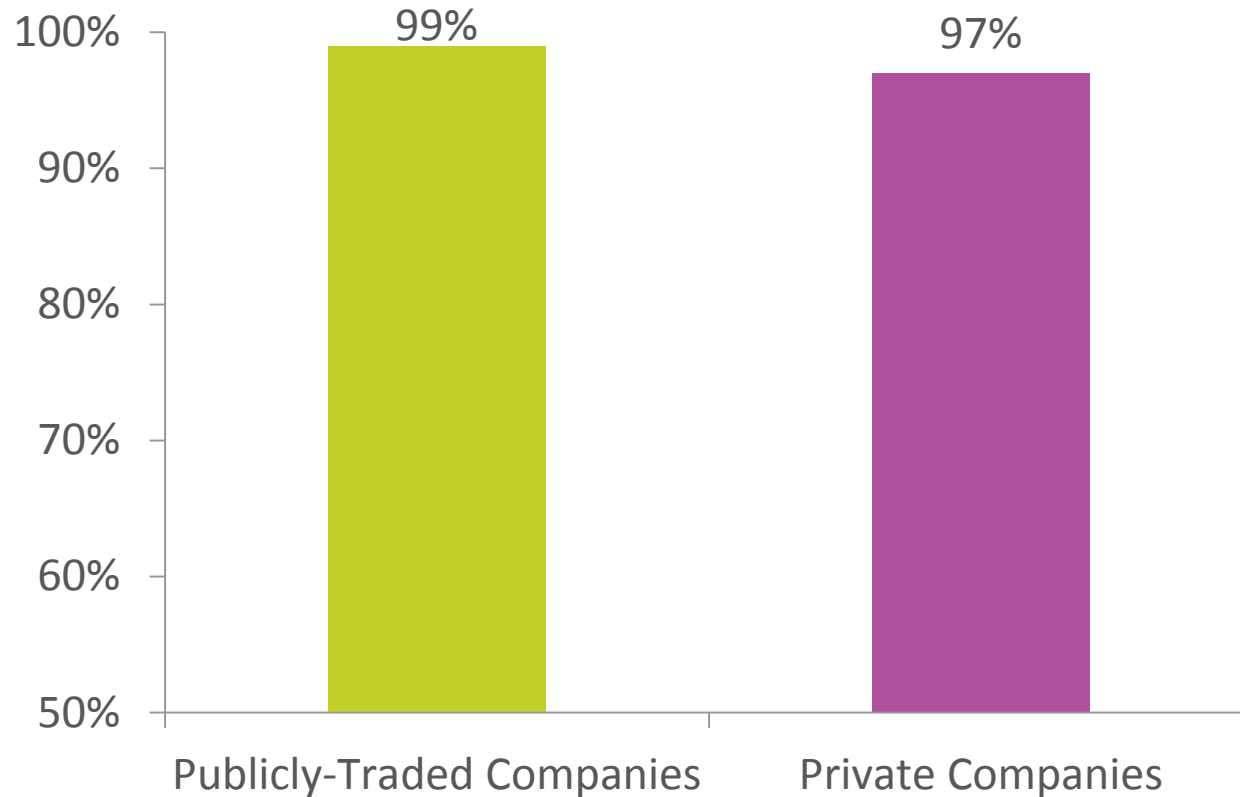
Polling Question #2

Does your organization have a short-term incentive (STI) program?

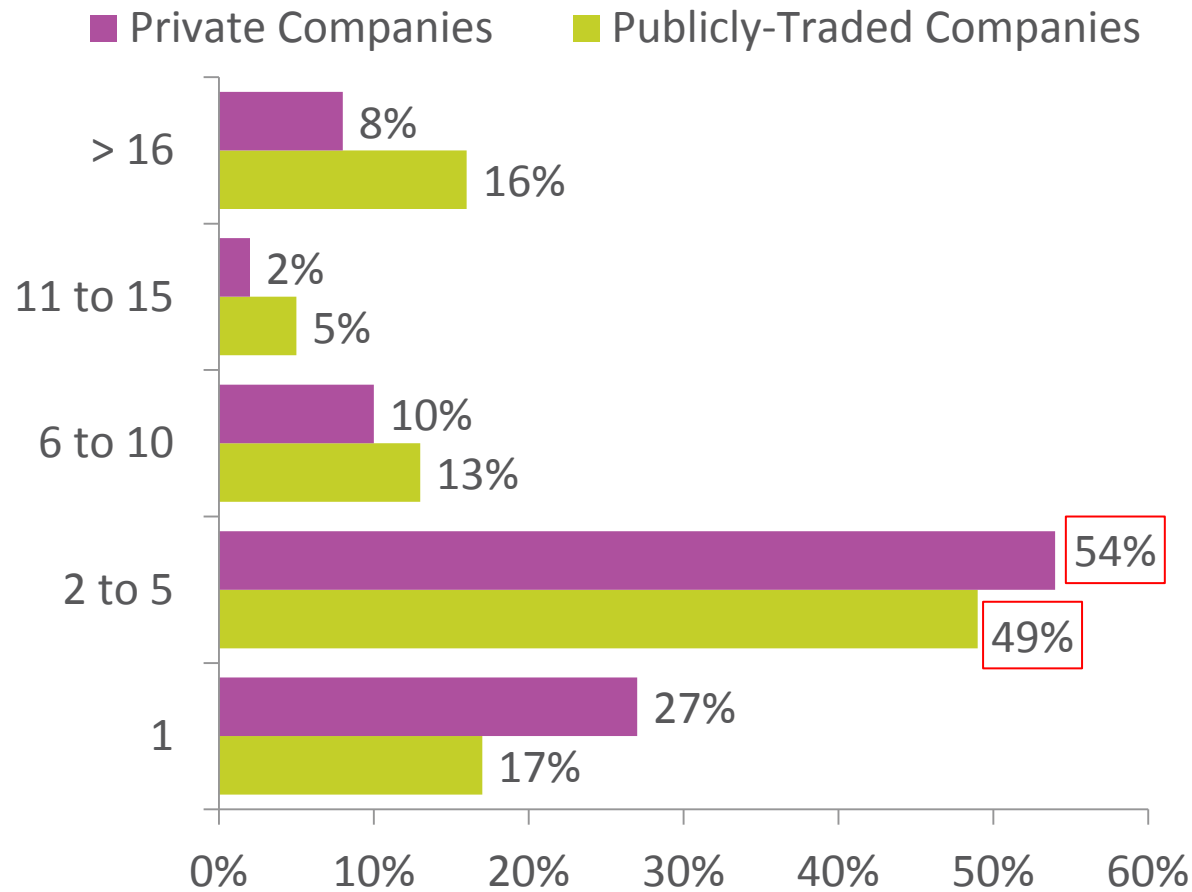
- > A) Yes
- > B) No



STI is popular among both publicly traded and private companies



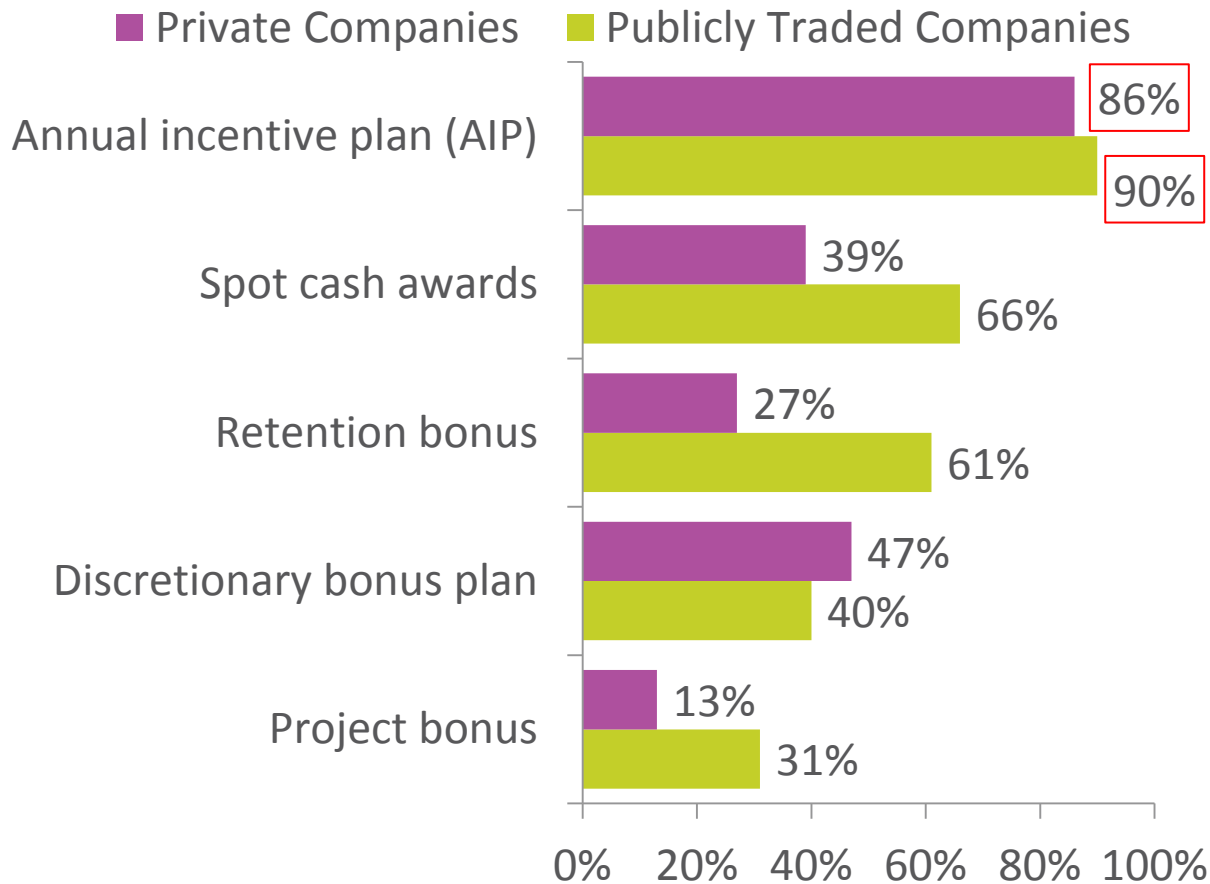
Most companies, regardless of type, have more than one STI plan



| Calpine | Houlihan |
|---------|----------|
| | |
| | |
| | |
| ✓ | ✓ |
| | |




The most prevalent type of STI plan is Annual Incentive Plan (AIP)



| | Calpine | Houlihan |
|-----------------------------|---------|----------|
| Annual incentive plan (AIP) | ✓ | ✓ |
| Spot cash awards | ✓ | |
| Retention bonus | ✓ | |
| Discretionary bonus plan | | |
| Project bonus | | |

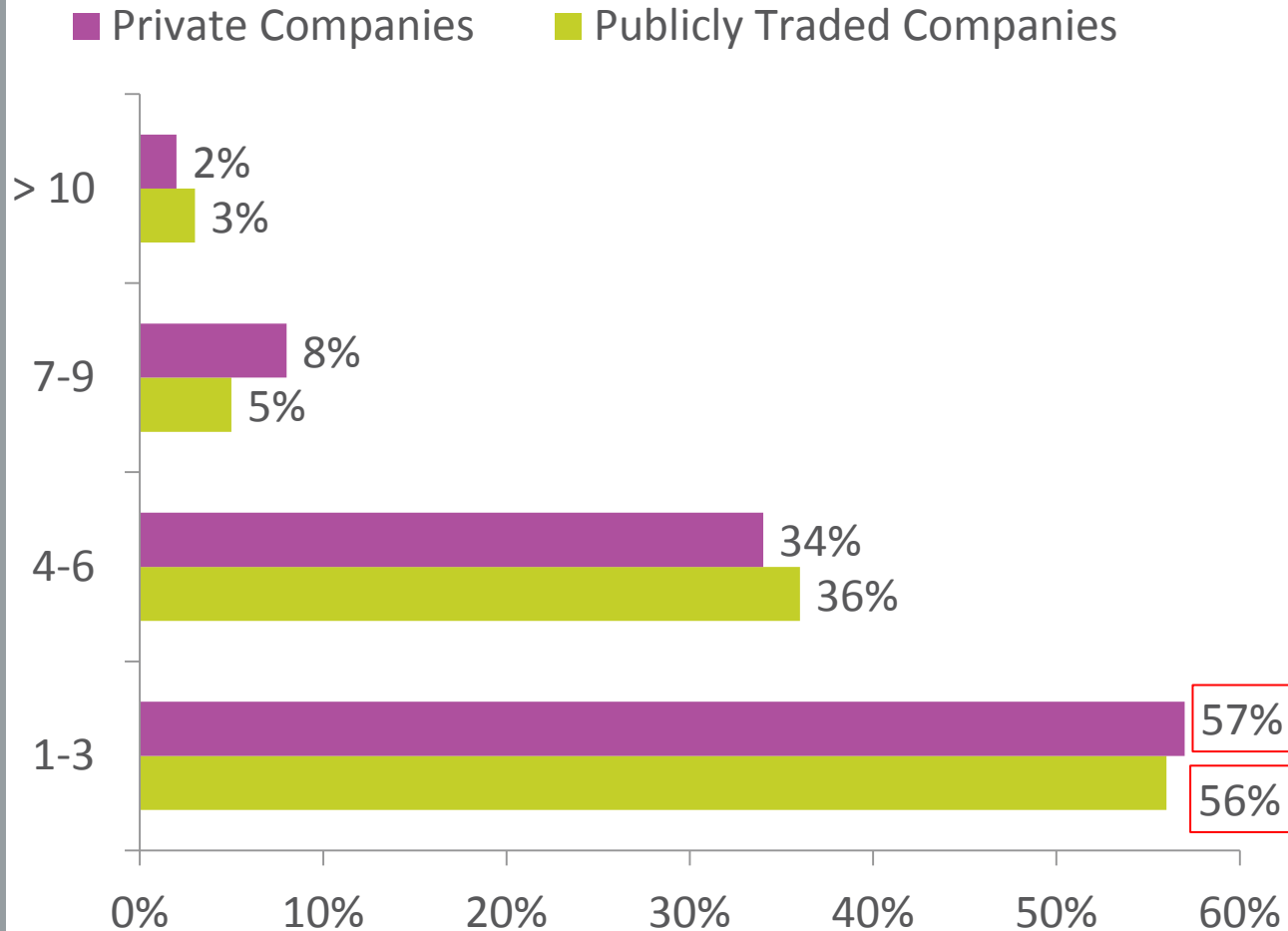




Deep Dive to Annual Incentive Plan (AIP)

Key Design Features

Over half of participants rely on one to three performance measures for their AIPs



| Calpine | Houlihan |
|---------|----------|
| | |
| | ✓ |
| ✓ | |
| | |



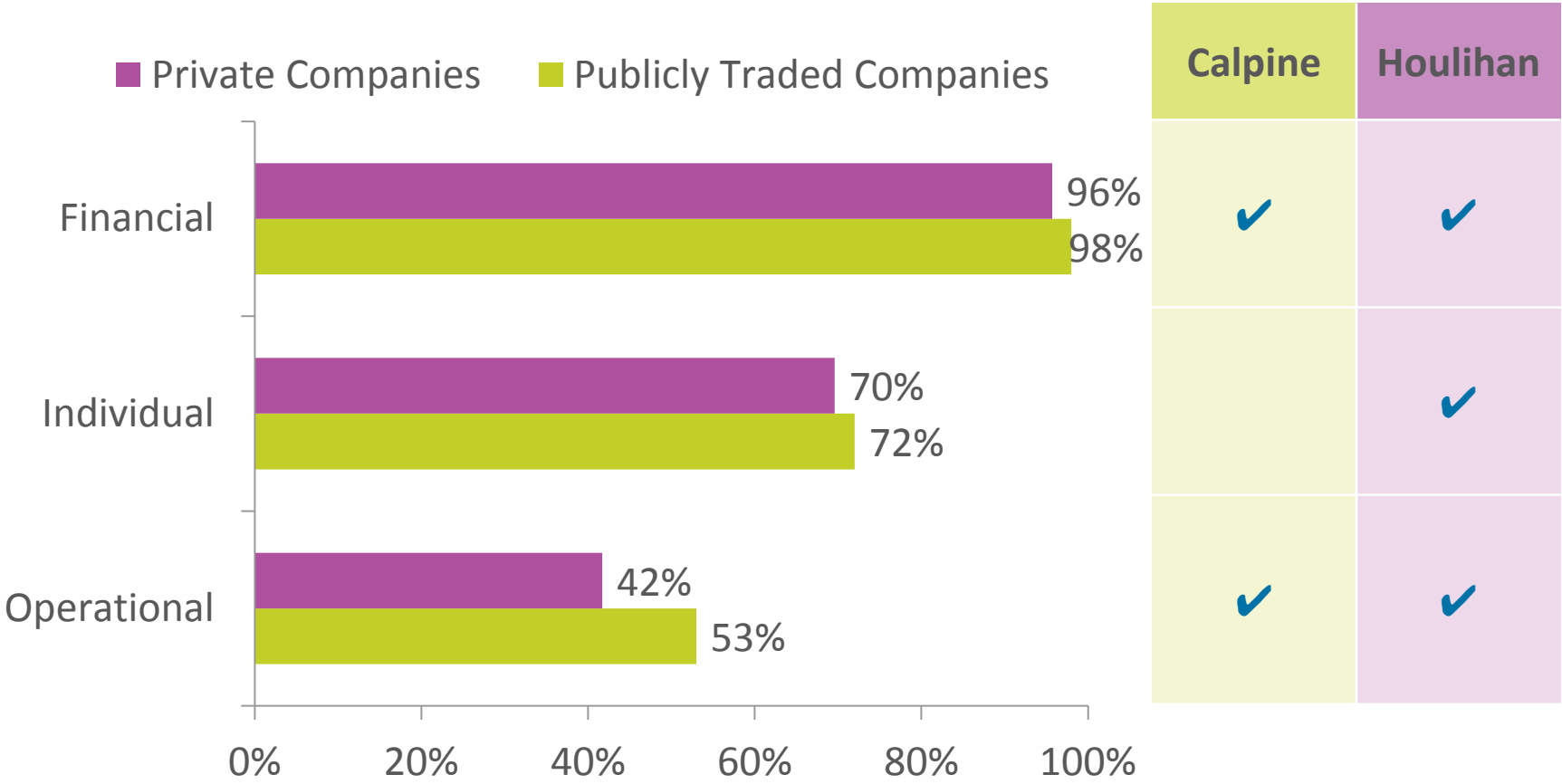
Polling Question #3

How many different performance metrics does your organization use in its main AIP/STI program?

- > A) >10
- > B) 7-9
- > C) 4-6
- > D) 1-3
- > E) Not sure / We don't have a plan



Financial performance is the most frequently reported performance measure





Long-Term Incentive (LTI) Program

Prevalence and Key Design
Features

Polling Question #4

Does your organization have a long term incentive (LTI) / stock or equity program?

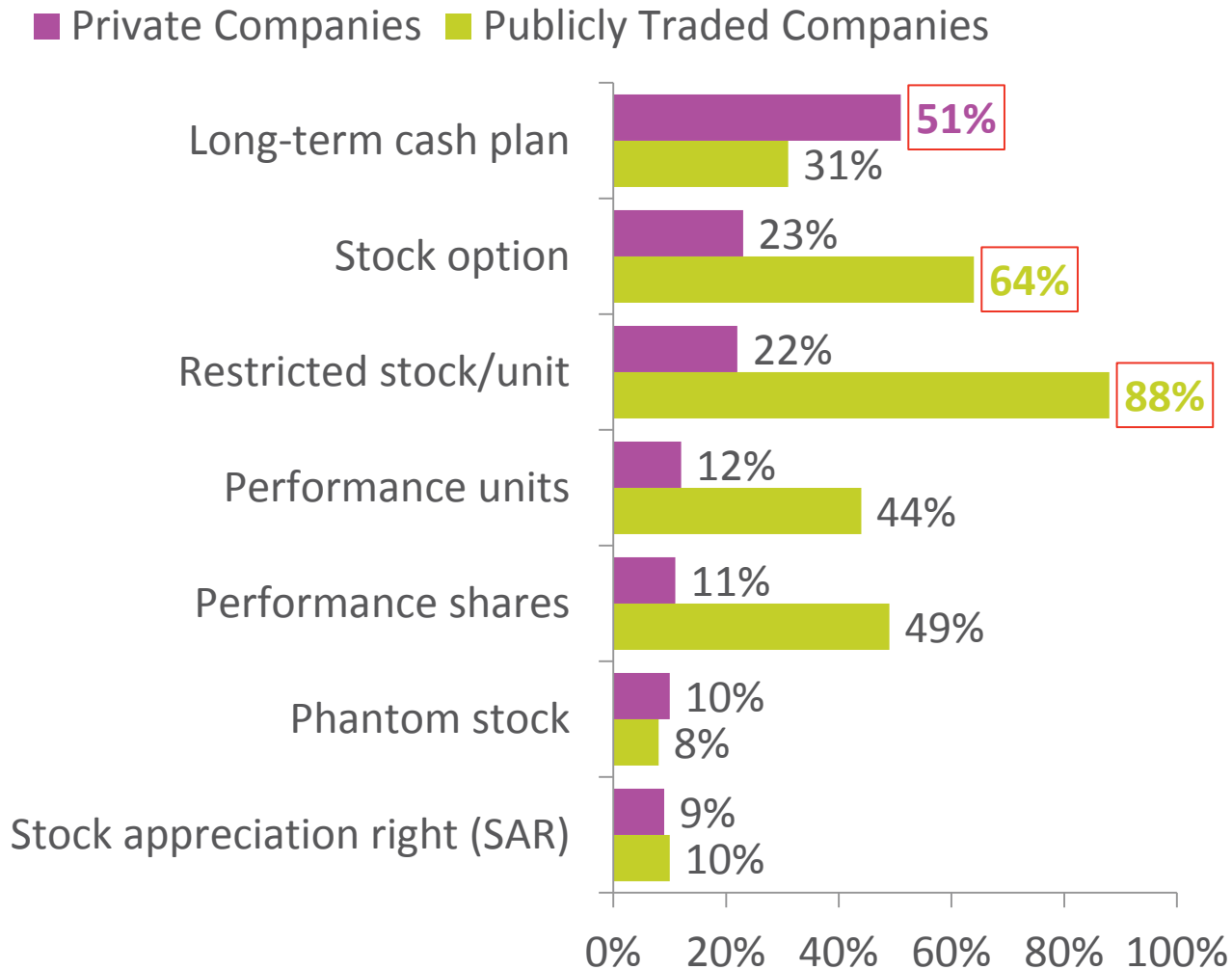
- > A) Publicly Traded – Yes
- > B) Publicly Traded - No
- > C) Private – Yes
- > D) Private - No



LTIs are more commonly used at publicly traded companies than private companies



Distinct differences exist in the types of LTI vehicles used

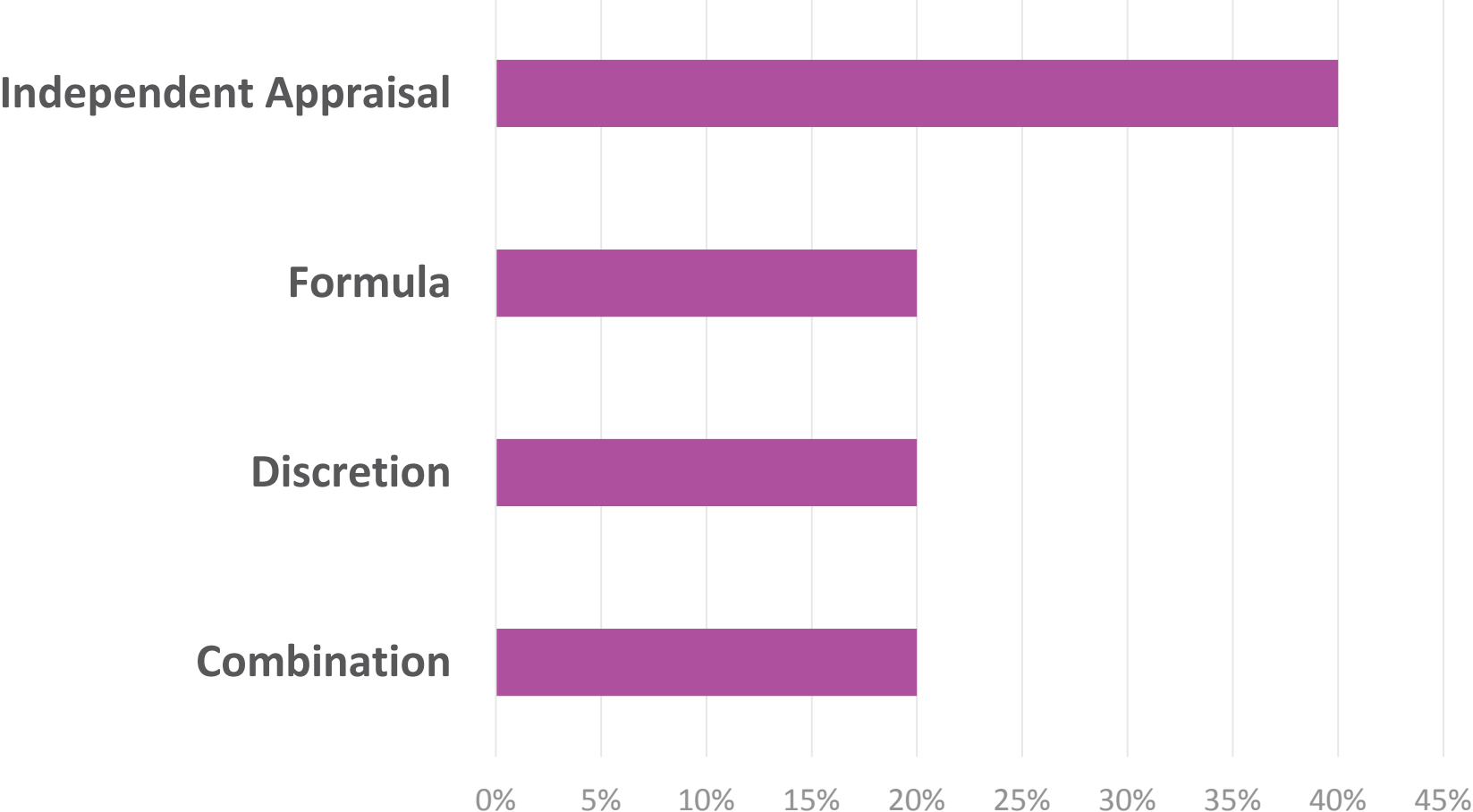


| | Calpine | Houlihan |
|--------------------------------|---------|----------|
| Long-term cash plan | | |
| Stock option | | |
| Restricted stock/unit | ✓ | ✓ |
| Performance units | | |
| Performance shares | ✓ | |
| Phantom stock | | |
| Stock appreciation right (SAR) | | |



Independent Appraisal is the most prevalent valuation methodology for private companies

Private Company LTI Valuation Mechanisms



Internal Value Drivers

COMPANY-SPECIFIC ATTRIBUTES THAT DRIVE VALUATION

Customers

- *Customer relationships*
- *Contract types*
- *Attrition rate / renewals*

Strategy / Risk

- *Business / focus*
- *Diversification (geographic & product line)*
- *Intellectual property protection & investments*

Employee Base

- *Management depth and organization infrastructure*
- *Employee qualifications / certifications*
- *Culture, utilization & turnover*

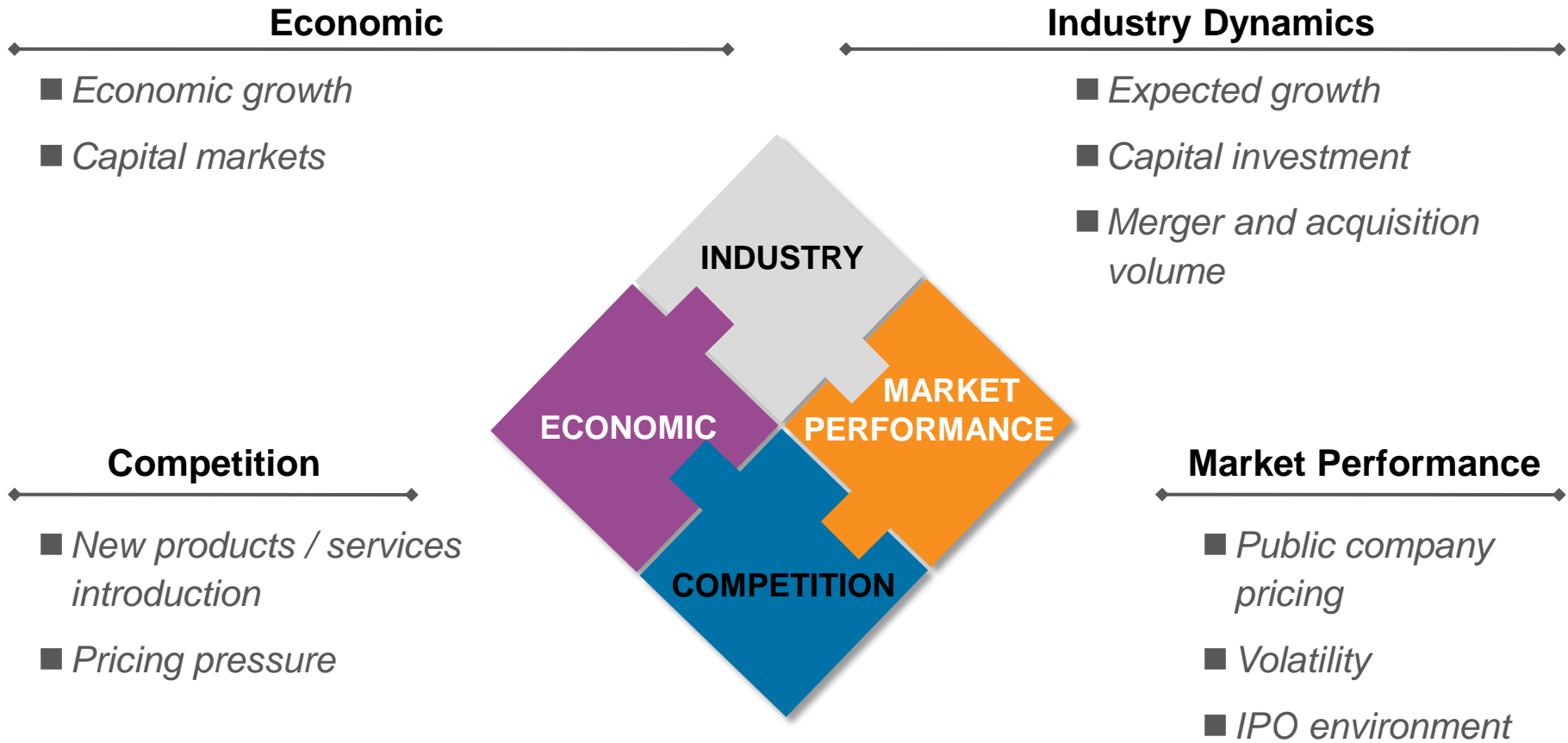
Financial Performance

- *Profitability*
- *Growth*
- *Size*
- *Balance Sheet*



External Factors that Impact Value

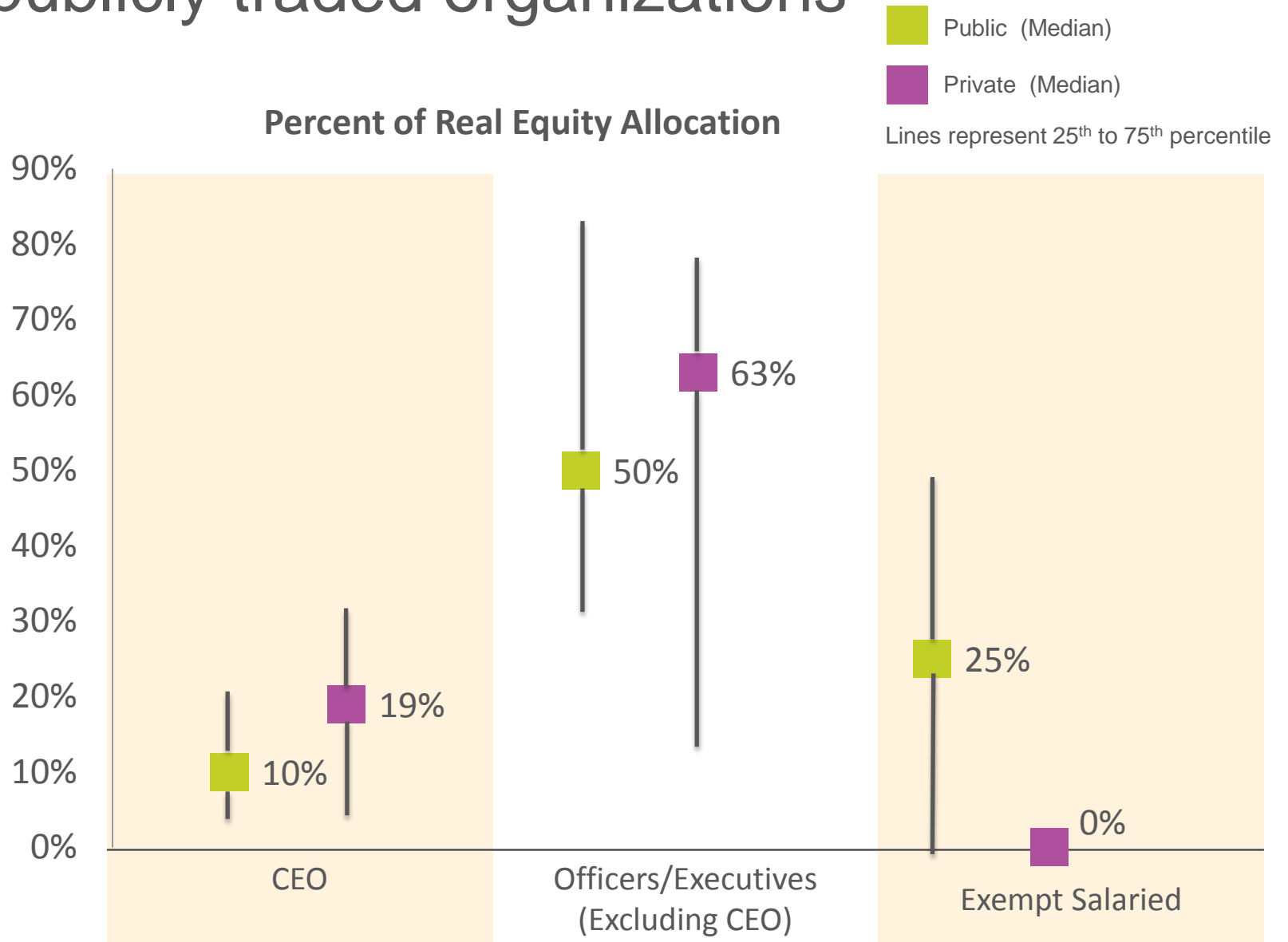
EXTERNAL FACTORS



The level of equity overhang, in general, is lower at private companies



LTI awards are more broadly distributed in publicly traded organizations



Summary – Key Differences

> Short-term Incentives

- Public and private companies are using similar programs. Not many differences
- Public companies have a slight lead over private companies in depth of AIP eligibility

> Long-term incentives

- More commonly used at publicly traded companies than private companies
- Public companies favor restricted stock and stock options. Private companies favor long-term cash which can result in more creative plan design
- The level of equity overhang, in general, is lower at private companies
- A larger portion of the equity pool is granted to executives at private companies while public companies push LTI eligibility further down in the organization



Polling Question #5

Who wins the war for talent?

- > A) Publicly Traded
- > B) Private, For-Profit
- > C) Tie Vote





Q&A

About Deloitte's Human Capital Practice

Deloitte helps organizations effectively manage their human capital to drive business growth. It does this leveraging advanced analytics to develop talent management and business-driven HR strategies to deliver results. Deloitte is a leader in human capital consulting, bringing a unique combination of business, industry and HR knowledge, supported by the breadth of services and capabilities of a multidisciplinary professional services organization and global network.

Deloitte.

As used in this document, "Deloitte" means Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.



About Vivient Consulting

- > Trusted, independent compensation expertise and planning since 2002
- > Excellent client service – from customized solutions to direct partner involvement – is our hallmark
- > Experience and results of a larger consulting firm – with the agility, flexibility and affordability of a boutique
- > Advisor to leading public, private, and non-profit companies with long standing client relationships

