



Stock Option Values Climb for CEOs, Especially at Higher-Performing Companies, Watson Wyatt Finds

WASHINGTON, February 27, 2007 – CEOs saw considerable increases in the value of their unexercised stock options last year, with chief executives at higher-performing companies seeing particularly large gains, according to a new CEO pay analysis by Watson Wyatt, a leading global consulting firm.

In its first look at 2006 executive pay levels, Watson Wyatt found that the median in-the-money value of unexercised stock options for CEOs at higher-performing companies more than tripled last year, from \$13.8 million in 2005 to \$42.6 million. At the same time, CEOs at lower-performing companies experienced a 5 percent increase, from \$19.7 million in 2005 to \$20.6 million last year. Company performance is based on total returns to shareholders (TRS); at higher-performing companies, TRS averaged 25 percent last year, compared with 7 percent at lower-performing firms.

Overall, the median in-the-money value of unexercised stock options for all CEOs in the analysis increased 47 percent, to \$28 million, in 2006. The total net increase for the CEOs was nearly \$2 billion. While this was a significant increase, it represents considerably less than 1 percent of the \$500 billion increase in market value experienced by the 100 large publicly traded companies in the study.

“Given the stock market’s strong performance last year, it is not surprising that the unrealized gains on stock options soared, especially for CEOs at the best-performing companies,” said Ira Kay, global director of compensation consulting at Watson Wyatt and one of the nation’s leading authorities on executive pay programs. “While the appropriate level of executive rewards is open to debate, it is clear that the greatest gains are going to those whose companies are performing best. This shows that the pay-for-performance model is working at most companies.”

Overall, the level of stock option gains is due in large part to the stock market’s strong performance. Only 14 of the 100 companies in the analysis had negative TRS last year. The in-the-money value for executives at higher-performing companies grew substantially last year because stock options are highly leveraged and a strong increase in shareholder returns can lead to an even larger increase in option value, noted Kay.

“This year’s proxy season should show another year where pay levels reflect strong corporate performance,” Kay said. “In addition, with new executive pay disclosure rules taking effect, we will likely see a number of changes to executive pay programs as companies continue to try to motivate and engage executives while ensuring that the link between pay and performance satisfies shareholders.”

About Watson Wyatt Worldwide

Watson Wyatt (NYSE: WW) is the trusted business partner to the world’s leading organizations on people and financial issues. The firm’s global services include: managing the cost and effectiveness of employee benefit programs; developing attraction, retention and reward strategies; advising pension plan sponsors and other institutions on optimal investment strategies; providing strategic and financial advice to insurance and financial services companies; and delivering related technology, outsourcing and data services. Watson Wyatt has 6,000 associates in 30 countries and is located on the Web at www.watsonwyatt.com.

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