

Trends in Director Compensation

Findings from the 2009-10 NACD/PM&P Director Compensation Report

*Compensation Committee Affinity Group
of Orange County*

The Pacific Club
Newport Beach, CA
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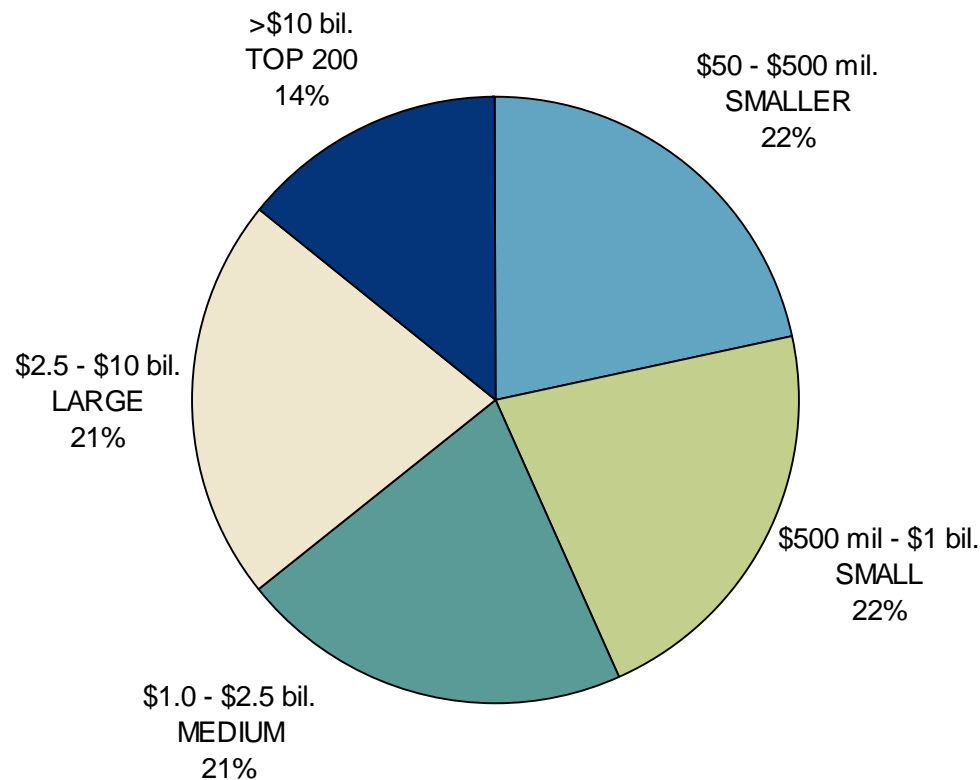
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2009-10 NACD Director Compensation Survey

- Study analyzes non-employee director compensation for 1,400 companies, broken out into 5 revenue groups and 22 industries

**1400 NACD Survey Companies
by Company Revenues**



Board Composition/Structure

- Company practices vary based on the size of the organization with regard to Board composition and structure

Board Composition and Structure					
	Smaller	Small	Medium	Large	Top 200
Median Term Length (yrs)	1	3	1	1	1
<i>% with 1 year term</i>	51%	48%	50%	50%	76%
Retirement Age (yrs)					
<i>Prevalence of disclosure</i>	23%	31%	48%	61%	75%
<i>Median Retirement Age</i>	72	72	72	72	72
Median No. of Directors (a)	8	8	9	10	11
Board Composition (Median)					
<i>Male</i>	100%	91%	89%	88%	83%
<i>Female</i>	0%	9%	11%	12%	17%
Combined CEO/COB Role					
<i>Prevalence in 2009</i>	46%	52%	60%	60%	76%

(a) Includes all directors - employee, as well as non-employee directors.

Director Remuneration – Trends

- As expected, 2009 growth was essentially flat

Total Direct Compensation (TDC) by Company Size									
Company Size	TDC		Prior Year-to-Year Trends (a)						
	2009	2008	2009 vs. 2008	2008 vs. 2007	2007 vs. 2006	2006 vs. 2005	2005 vs. 2004 (b)	2004 vs. 2003 (b)	2003 vs. 2002 (b)
Smaller	\$75,490	\$78,060	(3) %	(5) %	7 %	16 %	11 %	36 %	(10) %
Small	108,836	116,111	(6)	2	2	7	15	20	11
Medium	131,054	133,470	(2)	1	5	2	16	23	9
Large	164,455	166,250	(1)	6	7	8	16	22	7
Top 200	216,186	213,899	1	4	5	12	11	14	1

- (a) Director compensation methodology was modified in 2007. Percentages are based on old methodology for comparable year-over-year growth rates.
- (b) Prior studies (2005 and earlier) reported average data rather than median; year-to-year changes represent change in average compensation levels.

Director Compensation by Pay Element

- While cash compensation was essentially flat, equity compensation tended to be lower year-over-year, particularly stock options

Year-over-Year Comparison by Company Size (2009 vs. 2008)					
	Smaller	Small	Medium	Large	Top 200
<u>Board Compensation</u>					
Cash Retainer	0 %	(4) %	0 %	0 %	0 %
Board Meeting Fees (a)(b)	5	14	0	3	(6)
Total Stock Award (c)	(21) %	(7) %	8 %	(6) %	(4) %
<i>Stock Options (a)</i>	(34)	5	(12)	(4)	(20)
<i>Full-Value Share (a)</i>	(16)	0	0	0	(1)
Total Board Compensation (c)	(4) %	(6) %	0 %	(4) %	0 %
<u>Committee Compensation</u>					
Total Committee Fees (b)	(5) %	4 %	8 %	2 %	(5) %
Total Direct Compensation (c)	(3) %	(6) %	(2) %	(1) %	1 %
TDC Per Meeting	2	(7)	(4)	(3)	(2)
Total Board Cost	2	(13)	(7)	(2)	(5)

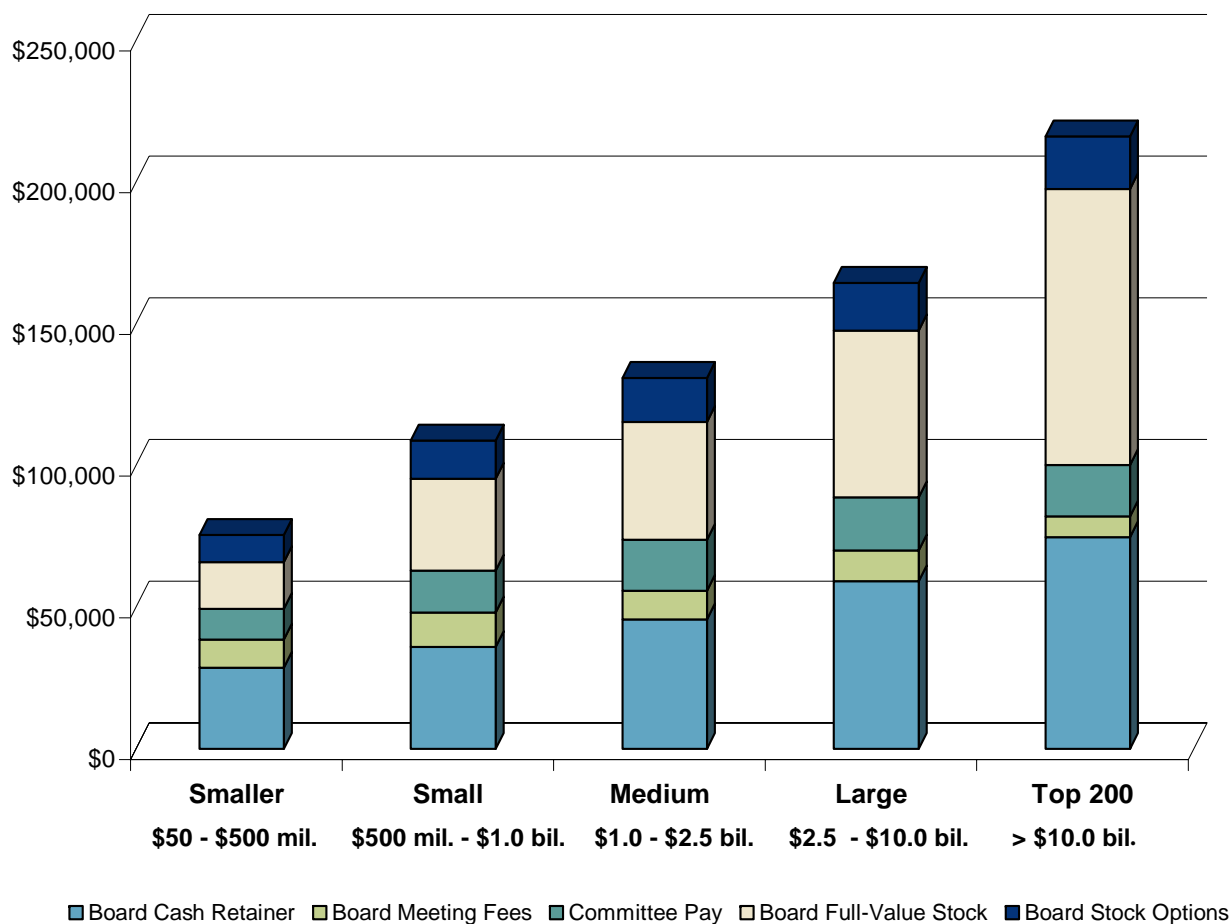
(a) Board meeting fees, stock options and full-value share awards reflect median of those companies using pay component (i.e., summary data excludes zeros).

(b) Includes board meeting fees and committee fees paid in cash and/or stock.

(c) Median figures are non-additive.

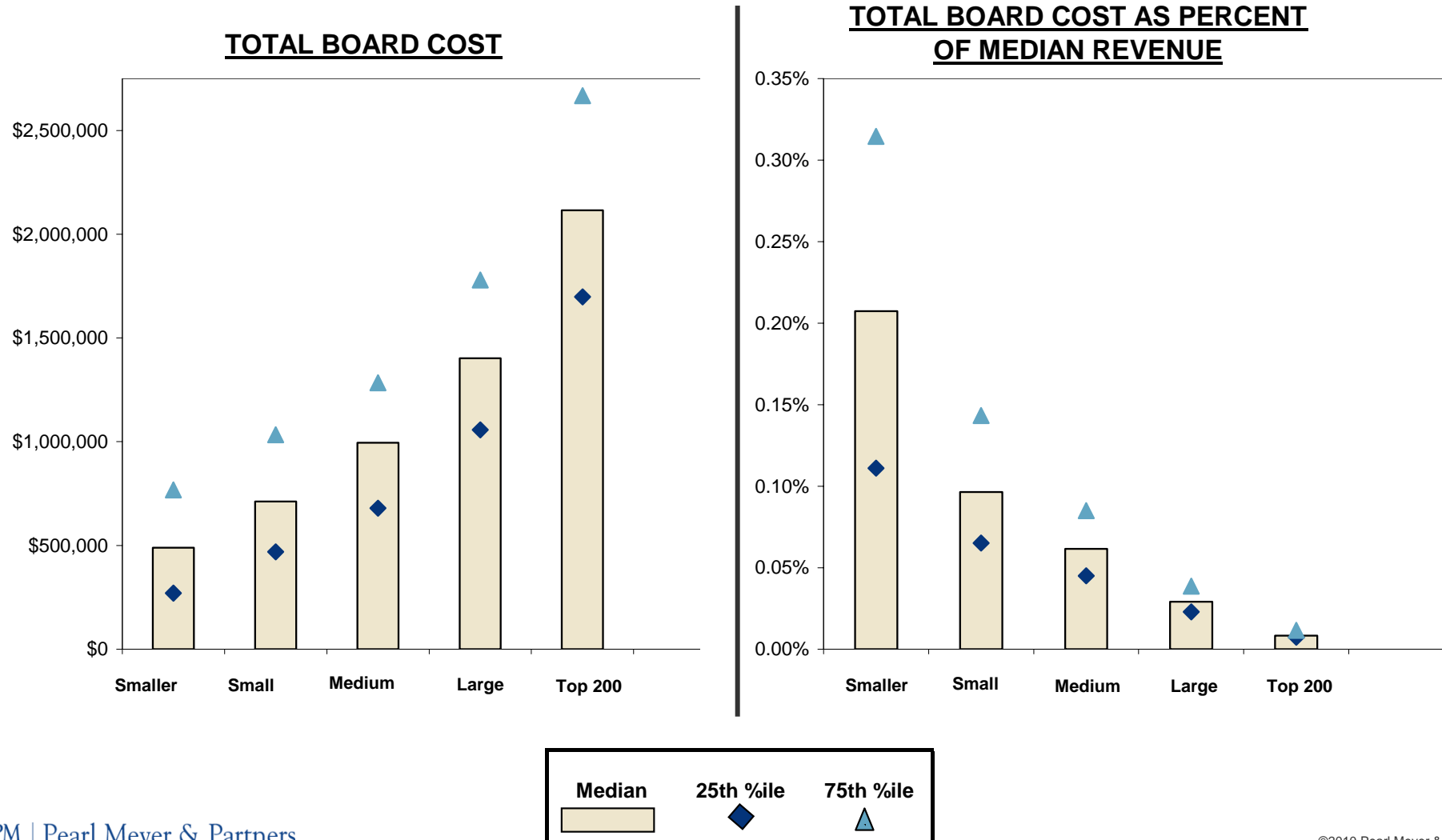
Total Direct Compensation

2009 Median Total Direct Compensation
by Company Size



Total Board Cost

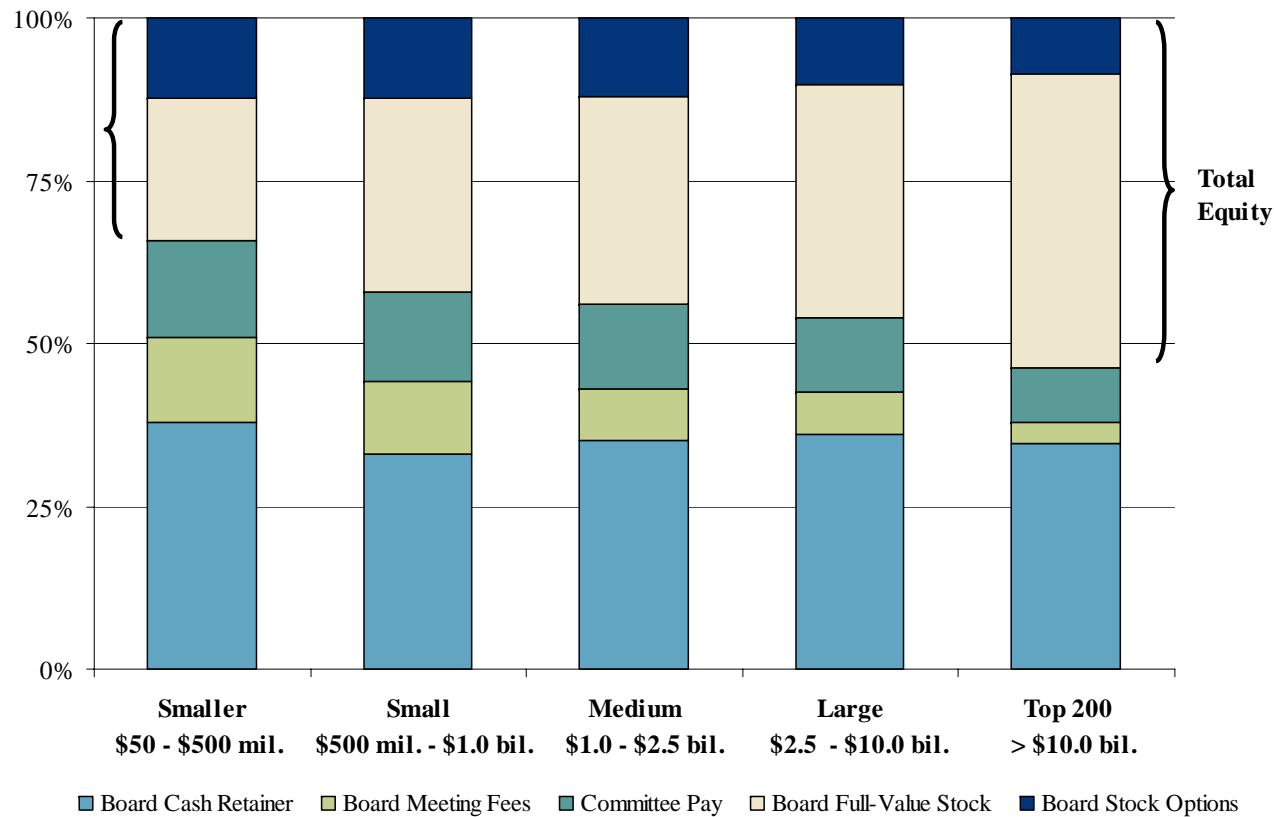
- Total Board cost increases with size; decreases as a % of revenue



Mix of Pay

- Equity awards (particularly stock) become more predominant as revenues increase

2009 Median Total Direct Compensation
by Company Size



Similarities/Differences by Company Size

Prevalence of Pay Elements		
	Low End	High End
Board Compensation		
Annual Cash Retainer	94%	97%
Board Meeting Fees (a)	39%	69%
All Stock Awards (b)	80%	98%
<i>Full-Value Shares</i>	57%	92%
<i>Stock Options</i>	27%	36%
Committee Compensation (a)		
Member Fees / Retainers (b)	73%	86%
<i>Member Retainer</i>	27%	40%
<i>Member Meeting Fees</i>	46%	67%
Chair Fees / Retainers (b)(c)	94%	98%
<i>Additional Chair Retainer</i>	82%	94%
<i>Additional Meeting Fees</i>	4%	11%

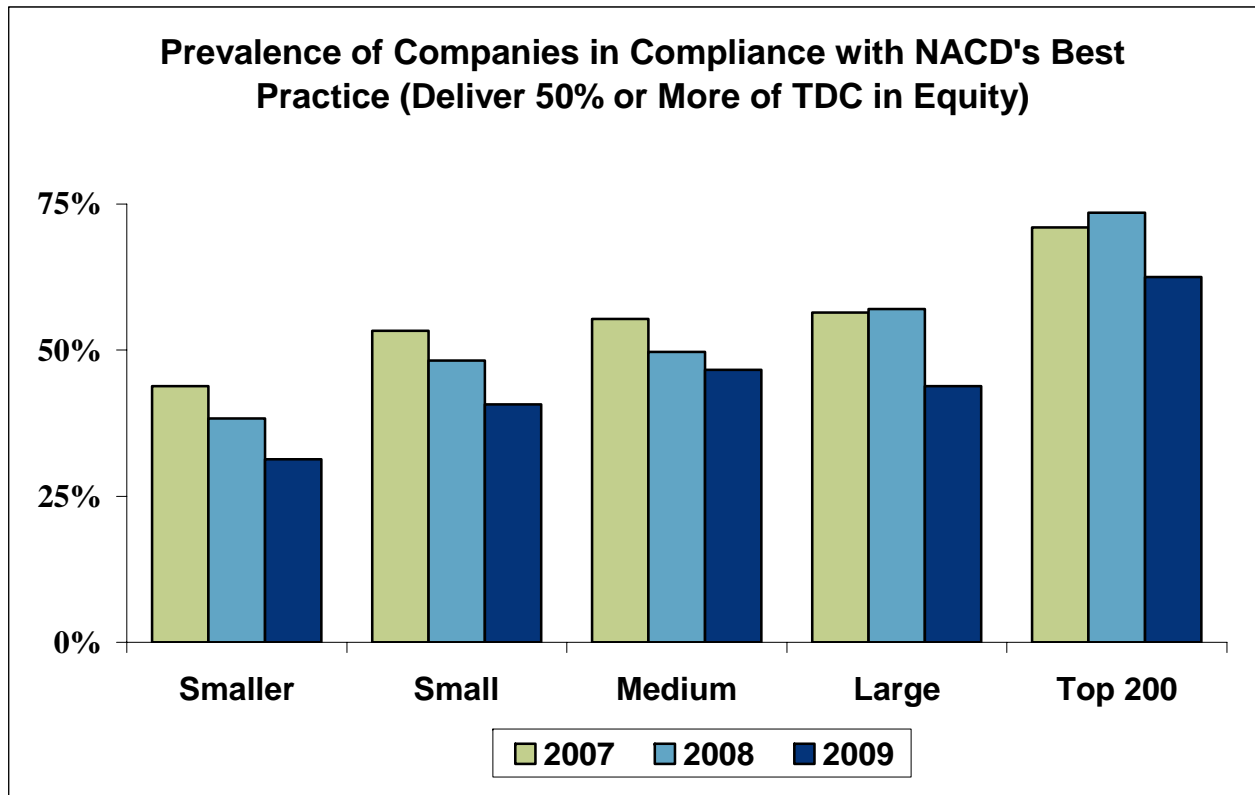
(a) Includes Board meeting fees and committee fees paid in cash and/or stock.

(b) Figures are non-additive.

(c) Reflects total prevalence of meeting fees and/or retainers paid to committee Chairs (includes member fees/retainers paid to committee Chairs plus additional Chair fees/retainers).

▪ Equity > 50% of Total Remuneration

- **Prevalence of companies in compliance with NACD's best practice (deliver 50% or more of TDC in equity)**
 - Decline in 2009 due to declining stock values, not changes in structure
 - 2010 anticipated to be similar to 2007 and 2008 levels



Equity grant practice: fixed value vs. fixed shares

- As compared to last year, more companies are granting equity awards based on a fixed value
- Consider floors / ceilings for awards under either program

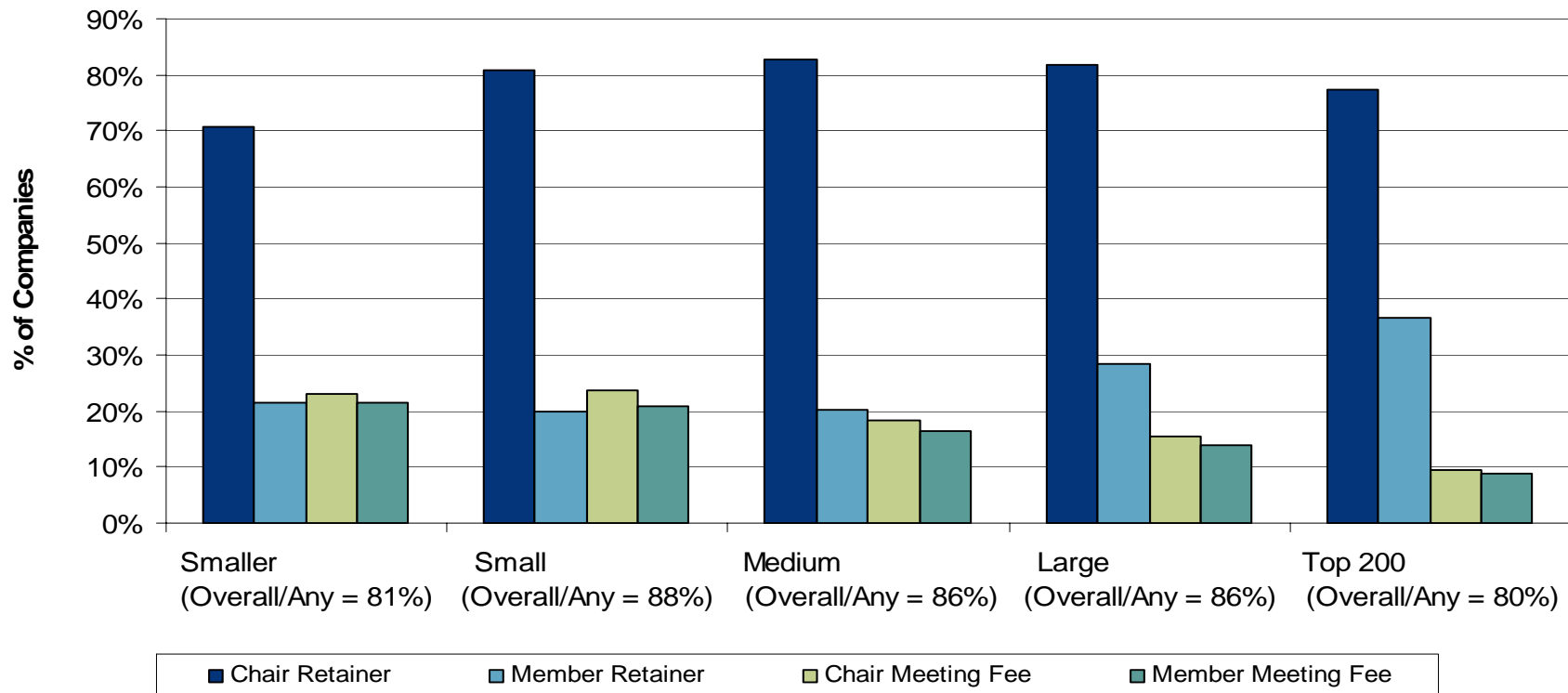
	Smaller	Small	Medium	Large	Top 200
Board Equity	% (a)	% (a)	% (a)	% (a)	% (a)
Fixed Shares	56%	49%	47%	34%	24%
Fixed Dollars	35%	46%	43%	57%	62%
Both	9%	5%	10%	9%	14%

(a) Prevalence figures based on the number of companies that granted equity.

Committee Pay

- Differentiated committee pay continues to be majority practice among all size groups**
 - Most often expressed in committee Chair pay

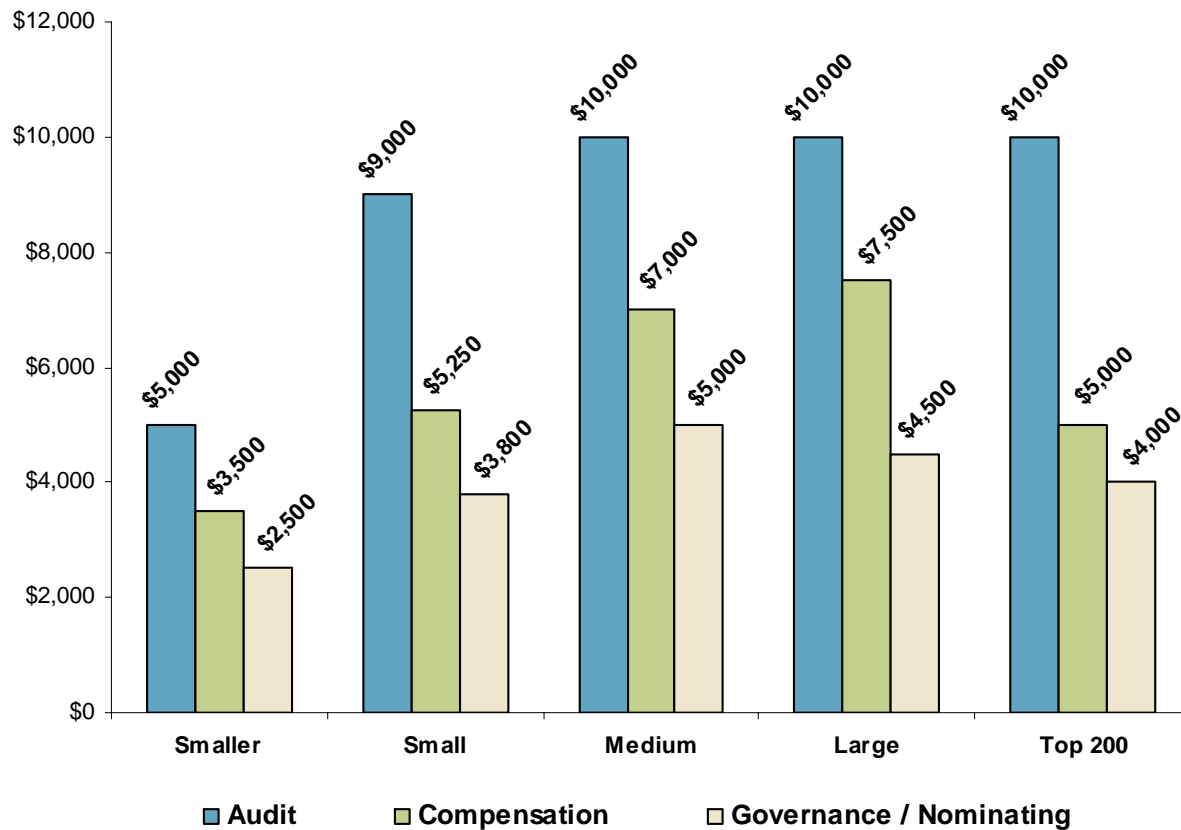
**Prevalence of Differentiated Pay
Among Audit, Compensation and Governance / Nominating Committees**



Committee Pay

- Audit Committee members earn a meaningful premium over other committee members...

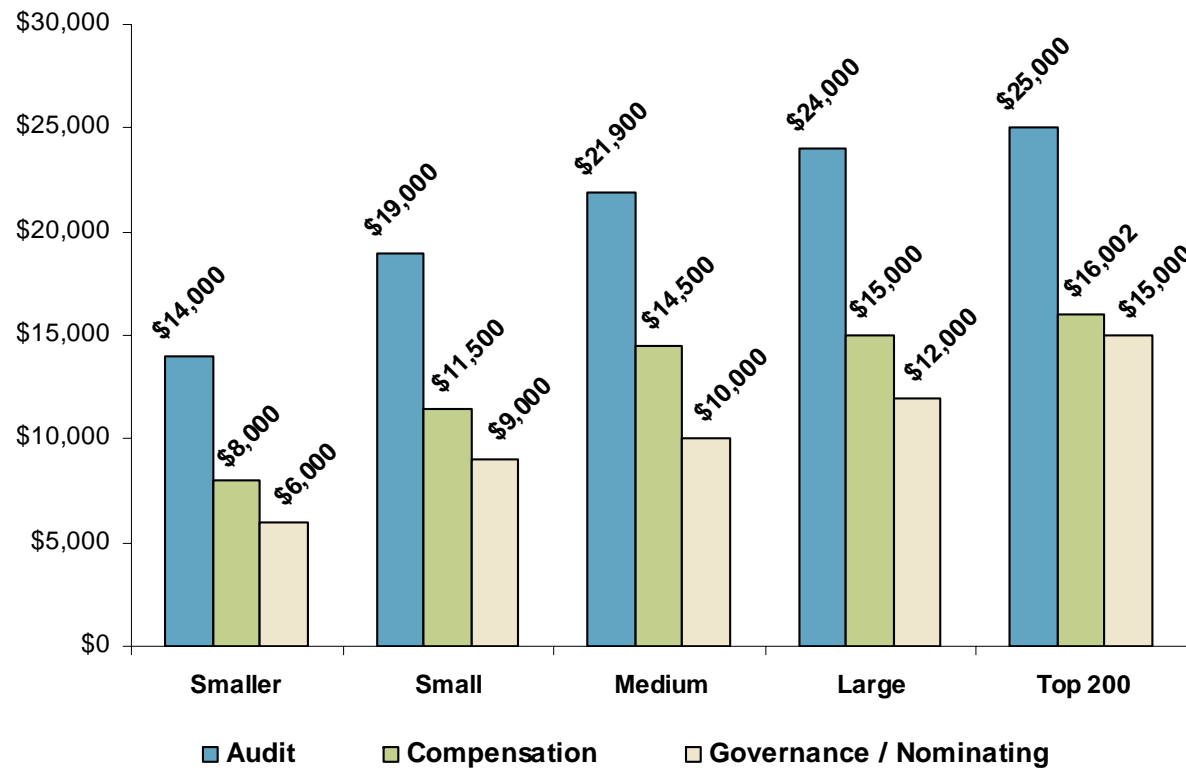
Median Total Committee Compensation Member



Committee Pay

- ...as do Audit Committee Chairs

Median Total Committee Compensation
Chair



■ Pay for Board Leadership

- **Premium pay for Board leadership is generally consistent across size cuts**
 - Differentiation by title continues to be significant
 - At median, non-executive Chairs are paid 45% to 77% more than other Board members, while Lead Directors receive 13% to 17% more than other Board members

Non-Executive Chair / Lead / Presiding Director Compensation					
Size Cut	Prevalence of Premium Pay for Board Leadership	Multiple Above Other NEDs Total Board Compensation (a)			
		Non-Executive Chairs		Lead / Presiding	
		Average	Median	Average	Median
Smaller	41%	1.91	1.45	1.25	1.16
Small	49%	1.59	1.46	1.21	1.17
Medium	53%	1.74	1.69	1.39	1.15
Large	50%	1.87	1.70	1.35	1.14
Top 200	50%	1.76	1.77	1.15	1.13

(a) NEDs stands for non-executive directors. Total Board Compensation excludes committee compensation.

Ownership Guidelines

- Stock ownership guidelines were generally consistent year-over-year
- Reflects shares deferred to retirement in addition to formal guidelines

Prevalence of Stock Ownership Guidelines					
	Smaller	Small	Medium	Large	Top 200
Total	24%	42%	58%	70%	84%

Ownership Requirements as Multiple of Retainer					
	Smaller	Small	Medium	Large	Top 200
Median Multiple (x)	4	3	4	4	5
Median Time Frame (yrs)	5	5	5	5	5

■ Perquisites and Benefits

- Board perquisites/benefits are more prevalent and likely to be disclosed at large companies
- As expected, prevalence of disclosure has declined year-over-year (as companies unwind programs)

Prevalence of Perquisites / Benefits					
Co. Size	% of Companies Disclosing Perquisites	Gift Matching / Charitable Gifts	Life / Health Insurance	Company Products, Services & Discounts	Car-Related
Smaller	3%	1%	3%	0%	1%
Small	8%	3%	6%	0%	0%
Medium	19%	12%	8%	3%	2%
Large	30%	20%	8%	7%	1%
Top 200	56%	41%	19%	12%	2%

Variation by Industry

- Tech / Life Science companies tend to compensate higher for the same revenue categories

Industry	Smaller		Small		Medium		Large		Top 200	
	Median TDC	Rank TDC	Median TDC	Rank TDC	Median TDC	Rank TDC	Median TDC	Rank TDC	Median TDC	Rank TDC
Aerospace & Defense	\$46,550	21	\$116,871	10	\$118,071	16	\$163,750	10	\$235,222	6
Banks/Savings & Loans	\$49,775	19	\$68,779	21	\$66,111	22	\$139,443	21	\$234,313	7
Chemical/Paper Products	\$88,987	7	\$74,601	20	\$116,250	18	\$144,545	19	\$207,750	13
Commercial/Diversified Services	\$94,500	4	\$122,556	8	\$149,250	8	\$162,778	11	\$217,286	10
Communications	\$68,492	13	\$108,831	11	\$117,842	17	\$159,082	12	\$236,467	4
Computer Products & Services	\$134,092	2	\$133,287	3	\$169,286	3	\$214,905	3	\$235,573	5
Consumer Products/Div. Manufacturers	\$88,033	9	\$96,706	13	\$137,039	11	\$181,500	6	\$215,455	11
Diversified Financial & Brokerage	\$93,125	5	\$173,708	1	\$136,917	12	\$175,059	7	\$250,397	3
Electronics/Electrical Equipment	\$91,334	6	\$127,480	6	\$163,013	4	\$132,619	22	\$199,891	14
Engineering, Construction	\$54,000	16	\$89,000	19	\$171,502	2	\$158,235	13	--	--
Entertainment/Hotels/Restaurants	\$78,523	11	\$126,140	7	\$151,864	6	\$185,493	5	\$185,454	17
Food/Beverage & Tobacco	\$41,380	22	\$96,000	14	\$150,309	7	\$173,470	8	\$209,750	12
Healthcare	\$95,966	3	\$130,841	5	\$155,617	5	\$200,383	4	\$252,250	2
Industrial, Machinery & Metal Products	\$74,750	12	\$90,875	18	\$122,857	15	\$156,829	15	\$176,480	19
Insurance	\$55,929	15	\$95,091	15	\$129,424	14	\$157,850	14	\$225,000	9
Motor Vehicle & Parts	\$51,475	17	\$94,007	17	\$92,224	20	\$143,000	20	\$142,524	20
Petroleum/Crude-Oil Production & Pipelines	\$88,192	8	\$150,031	2	\$139,500	10	\$219,177	2	\$253,750	1
Pharmaceutical & Medical Products	\$175,540	1	\$131,818	4	\$222,889	1	\$299,641	1	\$227,983	8
Real Estate/REITS	\$86,308	10	\$117,863	9	\$144,439	9	\$150,500	16	--	--
Retail	\$49,870	18	\$107,866	12	\$136,501	13	\$167,747	9	\$198,250	15
Transportation & Distribution	\$49,641	20	\$62,021	22	\$90,077	21	\$148,970	17	\$183,500	18
Utility & Energy	\$64,563	14	\$94,542	16	\$111,990	19	\$144,680	18	\$187,172	16
Average	\$88,580		\$122,108		\$141,184		\$168,113		\$217,600	
25th Percentile	\$46,500		\$74,598		\$96,199		\$128,946		\$182,975	
50th Percentile	\$75,490		\$108,836		\$131,054		\$164,455		\$216,186	
75th Percentile	\$111,357		\$144,272		\$170,088		\$196,164		\$245,861	

Industry Mix of Pay

- ... and provide a higher proportion of compensation in equity

Industry	Smaller		Small		Medium		Large		Top 200	
	Median TDC	Equity as % TDC	Median TDC	Equity as % TDC	Median TDC	Equity as % TDC	Median TDC	Equity as % TDC	Median TDC	Equity as % TDC
Aerospace & Defense	\$46,550	32%	\$116,871	50%	\$118,071	49%	\$163,750	51%	\$235,222	49%
Banks/Savings & Loans	\$49,775	20%	\$68,779	35%	\$66,111	24%	\$139,443	36%	\$234,313	47%
Chemical/Paper Products	\$88,987	38%	\$74,601	22%	\$116,250	46%	\$144,545	48%	\$207,750	50%
Commercial/Diversified Services	\$94,500	52%	\$122,556	49%	\$149,250	49%	\$162,778	46%	\$217,286	53%
Communications	\$68,492	31%	\$108,831	44%	\$117,842	34%	\$159,082	49%	\$236,467	50%
Computer Products & Services	\$134,092	51%	\$133,287	53%	\$169,286	62%	\$214,905	64%	\$235,573	60%
Consumer Products/Div. Manufacturers	\$88,033	48%	\$96,706	44%	\$137,039	44%	\$181,500	54%	\$215,455	57%
Diversified Financial & Brokerage	\$93,125	31%	\$173,708	60%	\$136,917	44%	\$175,059	43%	\$250,397	65%
Electronics/Electrical Equipment	\$91,334	47%	\$127,480	56%	\$163,013	59%	\$132,619	46%	\$199,891	53%
Engineering, Construction	\$54,000	23%	\$89,000	25%	\$171,502	56%	\$158,235	51%	--	--
Entertainment/Hotels/Restaurants	\$78,523	28%	\$126,140	42%	\$151,864	49%	\$185,493	54%	\$185,454	45%
Food/Beverage & Tobacco	\$41,380	10%	\$96,000	30%	\$150,309	42%	\$173,470	50%	\$209,750	55%
Healthcare	\$95,966	48%	\$130,841	54%	\$155,617	55%	\$200,383	56%	\$252,250	61%
Industrial, Machinery & Metal Products	\$74,750	31%	\$90,875	34%	\$122,857	51%	\$156,829	44%	\$176,480	49%
Insurance	\$55,929	7%	\$95,091	32%	\$129,424	33%	\$157,850	32%	\$225,000	52%
Motor Vehicle & Parts	\$51,475	11%	\$94,007	37%	\$92,224	17%	\$143,000	46%	\$142,524	54%
Petroleum/Crude-Oil Production & Pipelines	\$88,192	41%	\$150,031	52%	\$139,500	56%	\$219,177	51%	\$253,750	60%
Pharmaceutical & Medical Products	\$175,540	59%	\$131,818	49%	\$222,889	64%	\$299,641	74%	\$227,983	53%
Real Estate/REITS	\$86,308	40%	\$117,863	50%	\$144,439	52%	\$150,500	44%	--	--
Retail	\$49,870	37%	\$107,866	52%	\$136,501	46%	\$167,747	49%	\$198,250	61%
Transportation & Distribution	\$49,641	27%	\$62,021	37%	\$90,077	49%	\$148,970	42%	\$183,500	48%
Utility & Energy	\$64,563	38%	\$94,542	48%	\$111,990	41%	\$144,680	47%	\$187,172	50%
Average	\$88,580	35%	\$122,108	42%	\$141,184	44%	\$168,113	46%	\$217,600	54%
25th Percentile	\$46,500		\$74,598		\$96,199		\$128,946		\$182,975	
50th Percentile	\$75,490	35%	\$108,836	46%	\$131,054	49%	\$164,455	49%	\$216,186	53%
75th Percentile	\$111,357		\$144,272		\$170,088		\$196,164		\$245,861	

■ Trends and “Best Practices”

■ Overview

- Director roles will continue to expand in response to a number of issues including the new SEC disclosure rules (board’s role in risk oversight), Federal Reserve’s oversight (large financial institutions), expected Say on Pay implementation, greater shareholder outreach, and the recovering economy
- Demand for director candidates will increase as institutional shareholders continue to push for limits on the director pool (e.g. RiskMetrics no vote for directors who serve as the CEO of a company and on the board of more than two public companies or serving on six or more boards for other directors)

■ Total Remuneration

- It is expected that total remuneration levels will increase in 2010/2011 as companies respond to two years of nearly stagnant pay levels, share prices recoupment, the increased demand for qualified director talent and the economic recovery
- 2010 – single digit increases expected (4-8%)
 - » Growth dampened by ongoing scrutiny
- 2011 – high single / low double digit increases (7-12%)
 - » Accelerated by further economic (and stock price) recovery; increased time demands

■ Trends and “Best Practices” (cont’d)

■ Components of Compensation

- In 2010, there should be limited changes to historic trends and current components of compensation among companies. Continuation of:
 - » Compensation delivery in annual cash retainer and equity
 - » Shift away from providing a per meeting fee for attendance at Board or committee meetings
 - » Increase in prevalence and value in chair retainers
 - » Shift to dollar denominated full-value shares rather than share denominated stock options
 - » Increase in deferral programs as tax rates revert back to pre-Bush Administration levels (e.g. highest marginal federal income tax rate of 39.6%) and as a vehicle for increasing director share ownership

■ Committees

- In response to the SEC’s requirement that boards disclose their role in risk oversight of the company, companies may choose to establish a Risk Oversight Committee or delegate risk oversight duties among the boards current standing committees
- NACD Blue Ribbon Commission suggests risk oversight is a board activity and should not be fully delegated to any individual committee

■ Trends and “Best Practices” (cont’d)

■ **Mandatory Retirement Age**

- Companies may continue to implement age limits for directors as a mechanism to refresh board membership. However, the NACD recommends boards instead utilize evaluations as a method for reviewing director performance and continued service

■ **Director Terms**

- The majority of larger US companies (Top 200) now elect directors annually. Among other US companies, board terms are split nearly equally between annual and three-year terms
- The smaller US companies will most likely follow the path of the Top 200 and the desires of institutional investors and reduce director terms to one year

■ Trends and “Best Practices” (cont’d)

■ Share Ownership/Retention Requirements

- The number of companies implementing stock ownership/retention requirements for Directors seems to be leveling off among the Top 200 companies while smaller companies continue to implement requirements. Among Top 200 Companies
 - » 45% maintain formal ownership requirement
 - » 12% have ownership guidelines as well as grant shares which must be held until termination of Board service
 - » 28% grant shares which must be held until termination of Board services only
- There has been a push among institutional shareholders to require directors as well as executives to retain a portion of equity awards either for a specified period of time or until termination of service. In response, the majority of companies implementing ownership requirements during 2009 for directors also require directors to retain shares until retirement

■ Questions?

Questions?