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Trends in Director Compensation

Preliminary Findings from the 2009-10

NACD/PM&P Director Compensation Report

January 21, 2010

Today's Speakers



Jannice L. Koors, Managing Director Pearl Meyer & Partners, Chicago

Jan Koors, Managing Director and head of PM&P's Chicago office, has more than 20 years of experience in all areas of executive compensation.

Matt Vnuk, Associate Pearl Meyer & Partners, New York

Matt Vnuk serves as the Project Manager for research, analysis and publication of the NACD/PM&P Director Compensation Report.

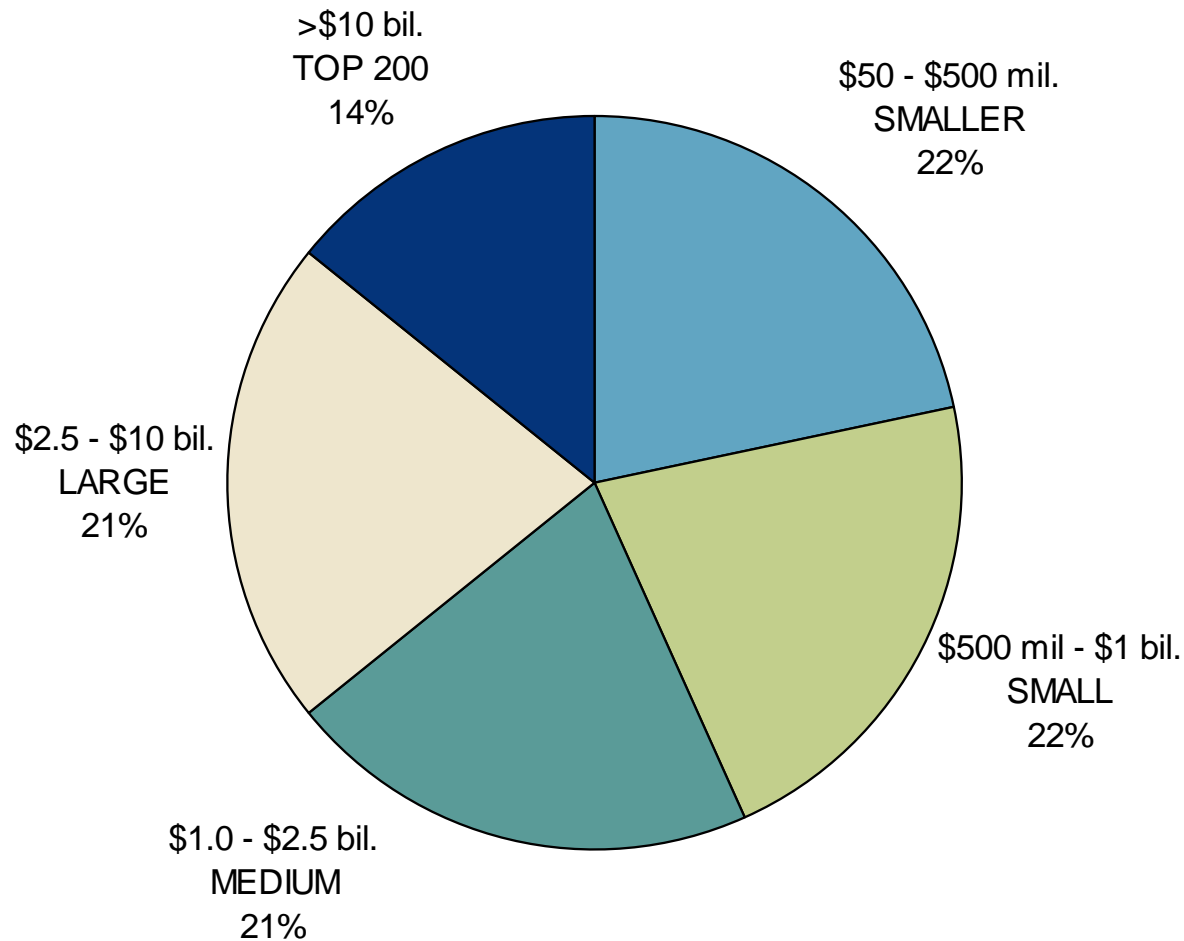
Peter R. Gleason, Managing Director and Chief Financial Officer National Association of Corporate Directors

Peter Gleason serves as Treasurer for the NACD Board of Directors and leads the Center for Board Leadership, the research arm of the NACD.

Study analyzes non-employee director compensation for 1400 companies, broken out into 5 revenue groups and 22 industries



1400 NACD Survey Companies by Company Revenues



Companies generally follow the lead of Top 200 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.

As expected, 2009 growth was essentially flat, with values down slightly



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.

Chart below reflects Board compensation by pay element



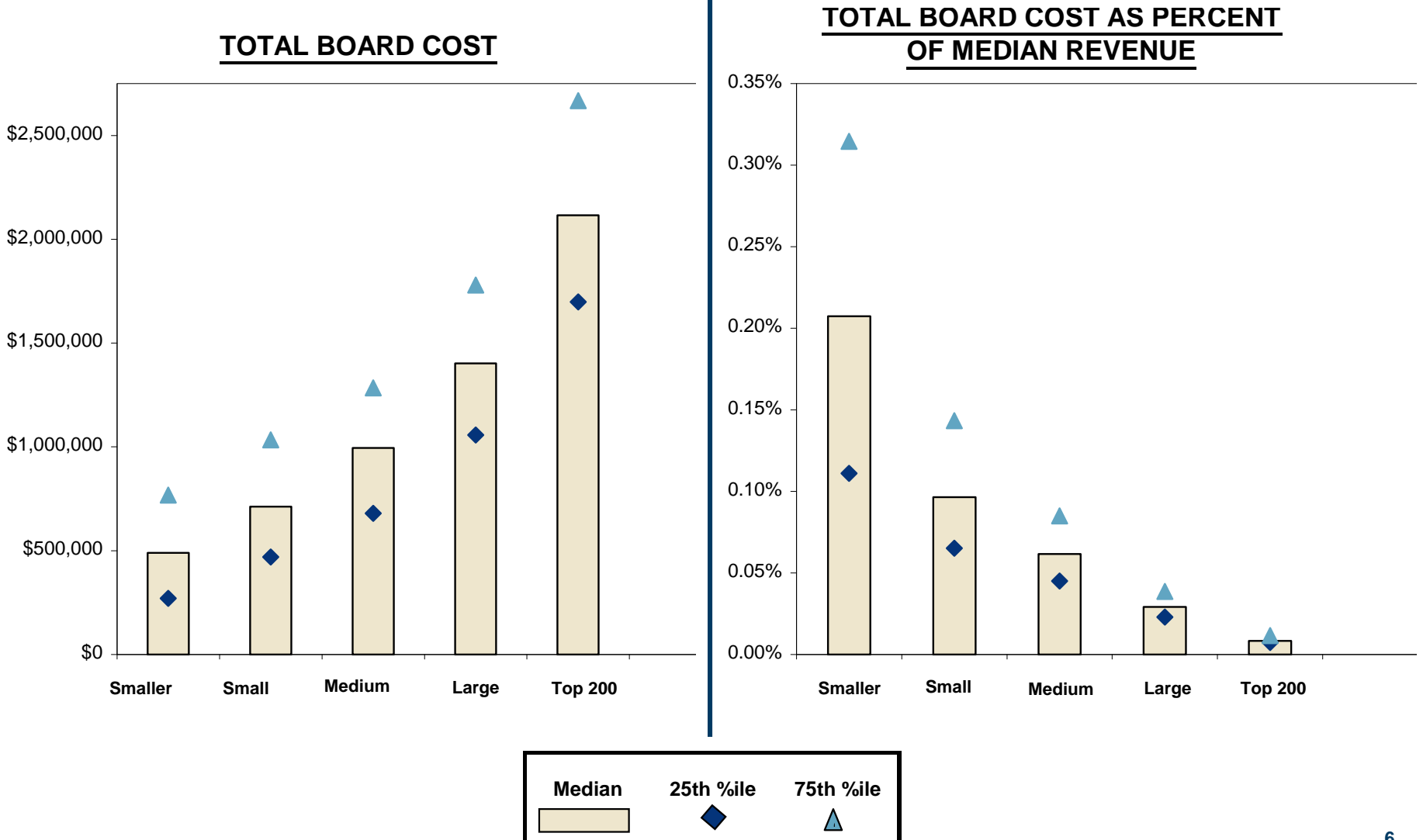
Year-over-Year Comparison by Company Size (2009 vs. 2008)					
	Smaller	Small	Medium	Large	Top 200
<u>Board Compensation</u>					
Cash Retainer	0 %	(4) %	0 %	0 %	0 %
Board Meeting Fees (a)(b)	5	14	0	3	(6)
Total Stock Award (c)	(21) %	(7) %	8 %	(6) %	(4) %
<i>Stock Options (a)</i>	(34)	5	(12)	(4)	(20)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

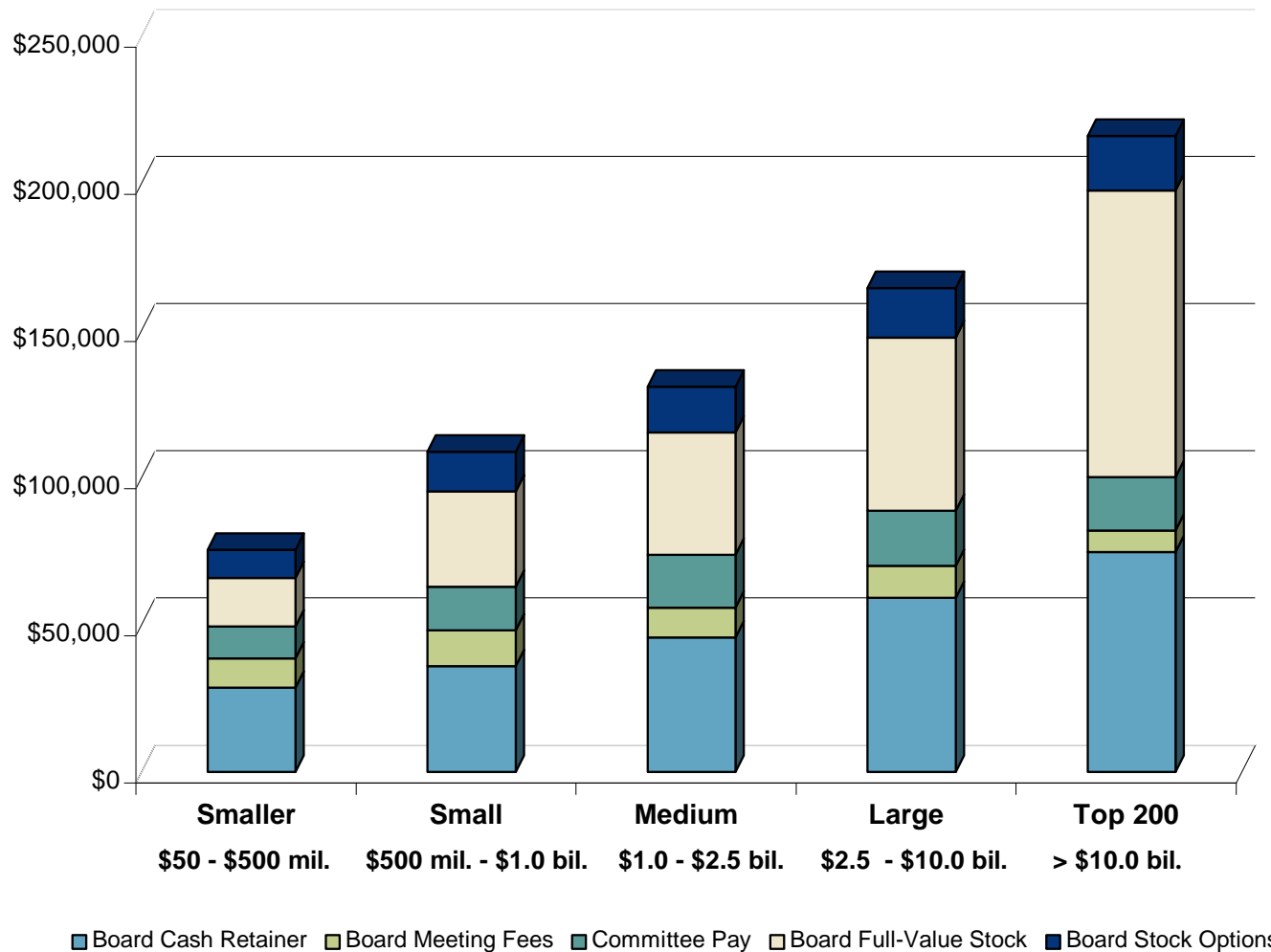
Total Board Cost increases with size, but decreases as a percentage of revenues



Pay mix is fairly consistent across size groups, with some continued trends



2009 Median Total Direct Compensation by Company Size



Smaller companies follow the lead of Top 200 with regard to pay structure



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.

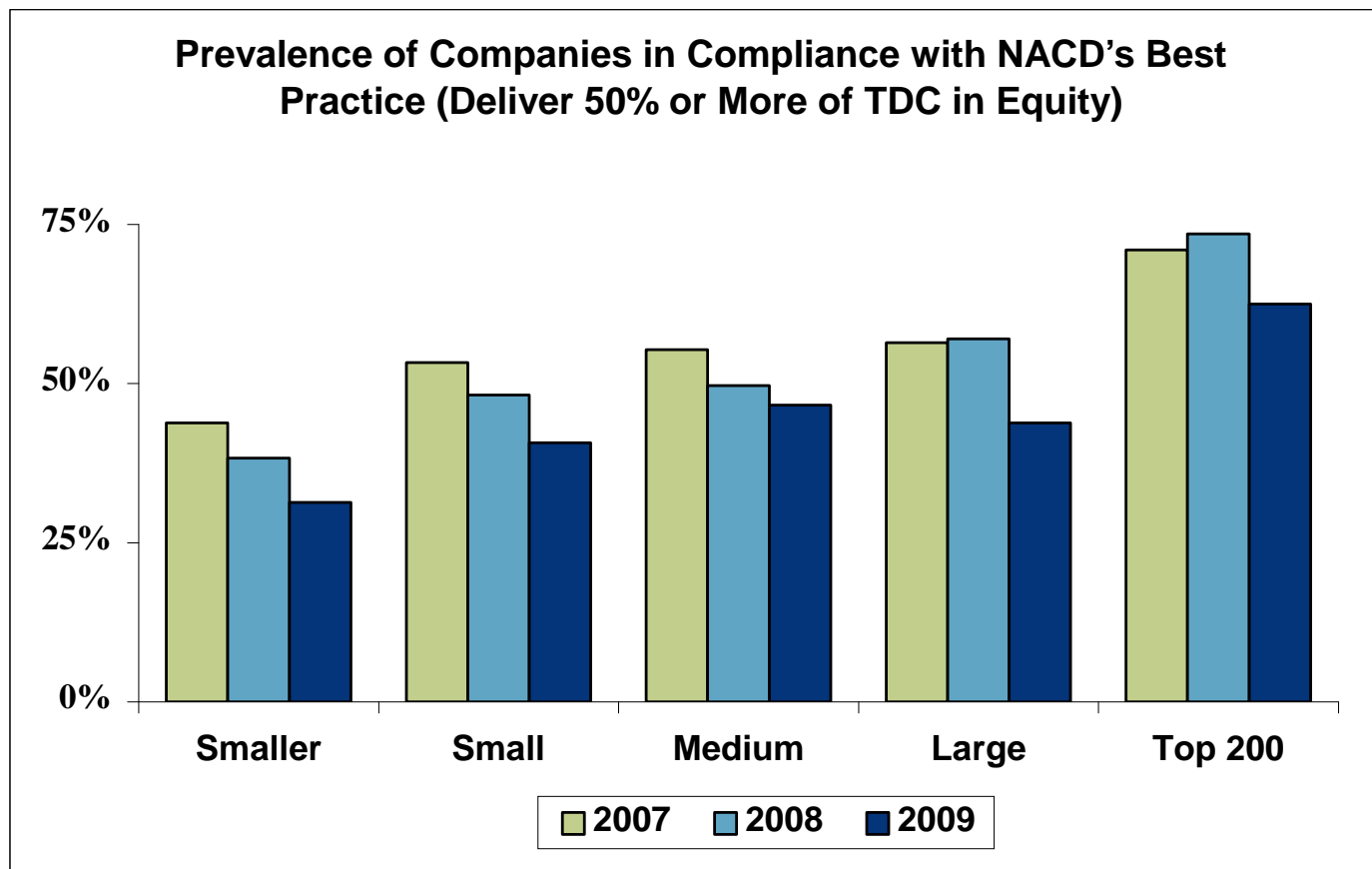
(b) Figures are non-additive.

(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).

Change in companies in compliance with NACD is not due to changes in program structure



- Prevalence of companies in compliance with NACD's best practice (deliver 50% or more of TDC in equity) in 2010 is expected 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

Equity Grant Practice Analysis: Fixed Values vs. Fixed Shares					
	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%

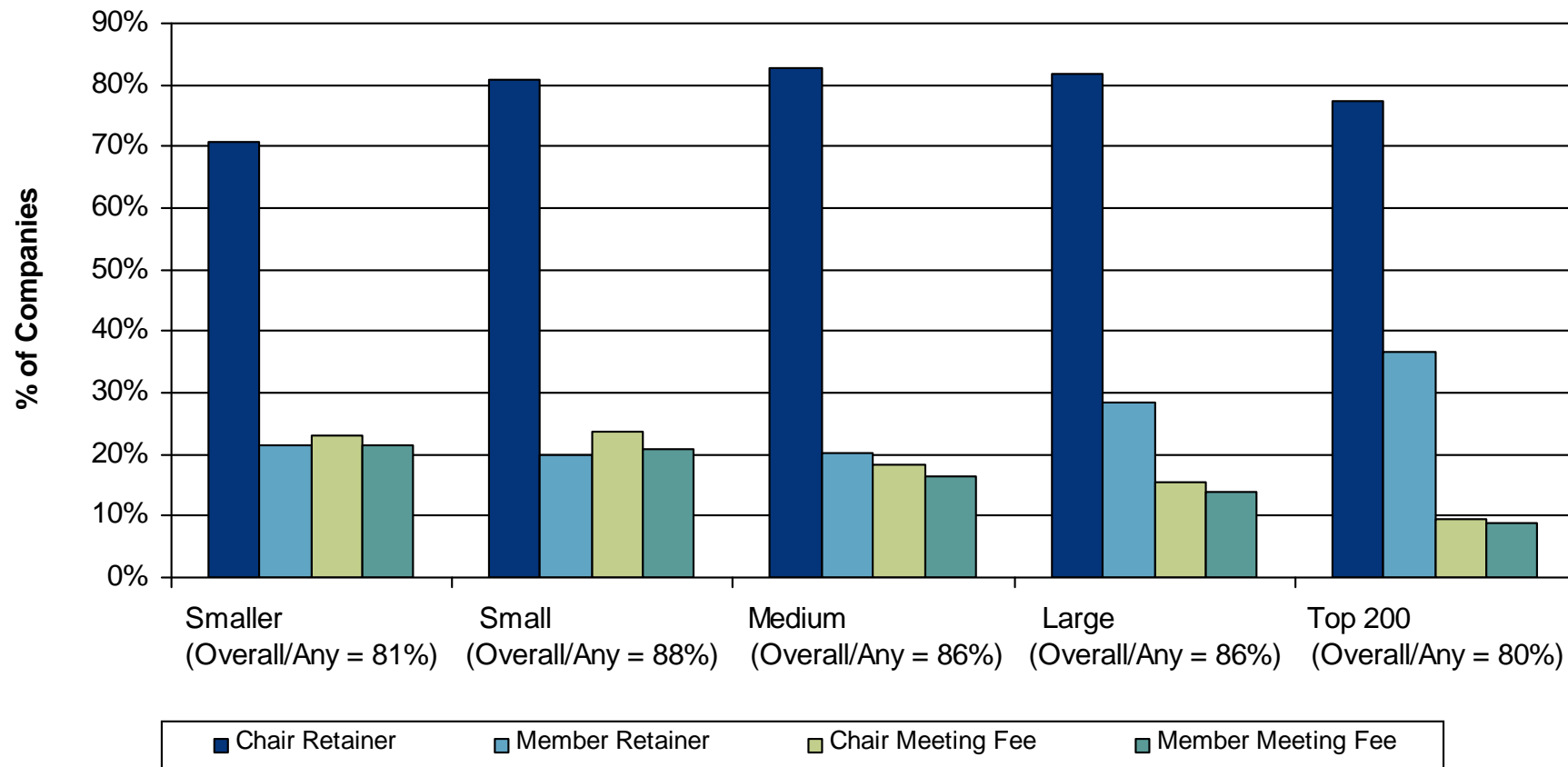
(a) Prevalence figures based on the number of companies that granted equity.

Differentiated committee pay continues to be majority practice among all size groups



- Most often, differentiation is expressed in committee Chair pay

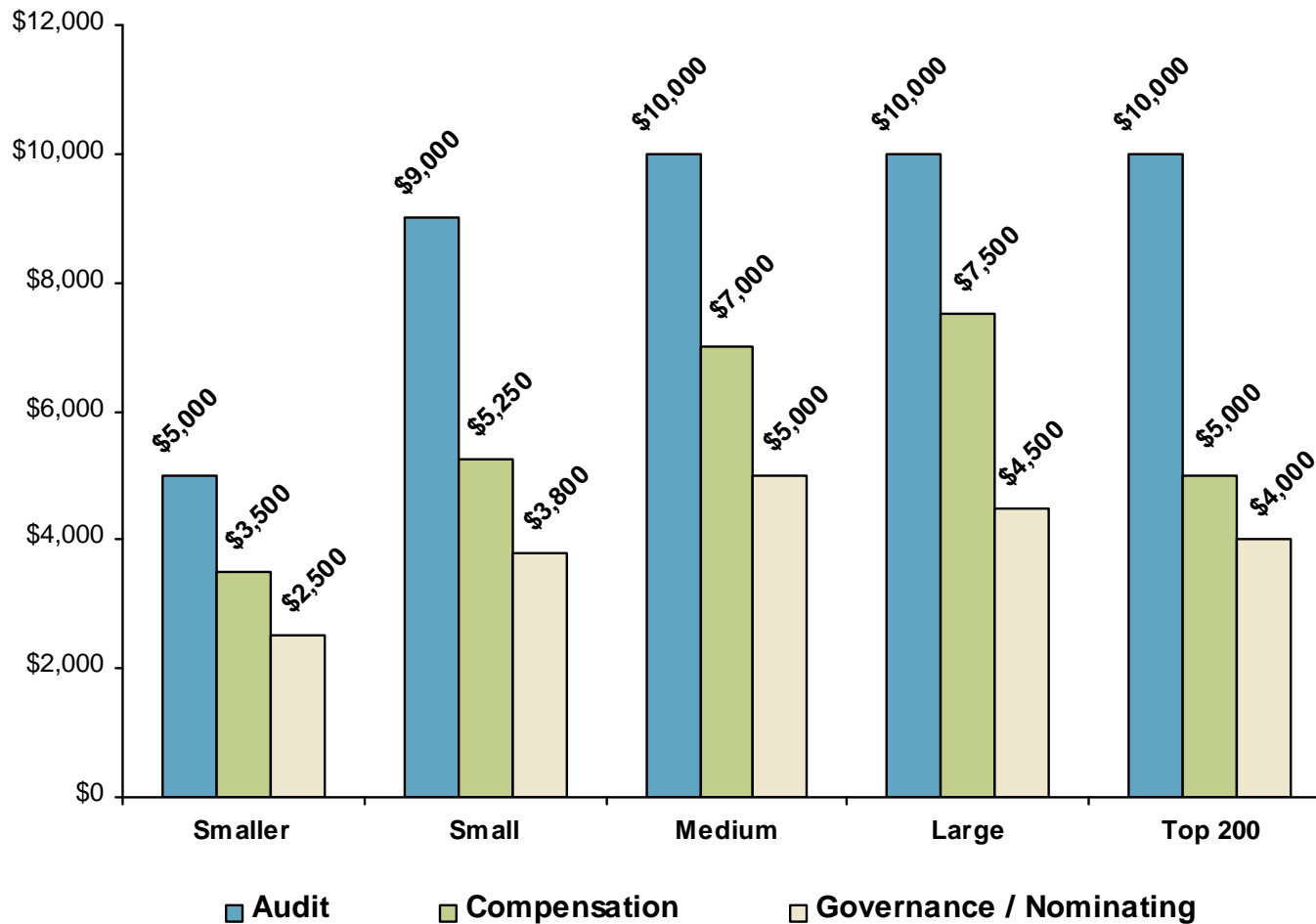
**Prevalence of Differentiated Pay
Among Audit, Compensation and Governance / Nominating Committees**



Audit Committee members earn a meaningful premium over members of other committees . . .



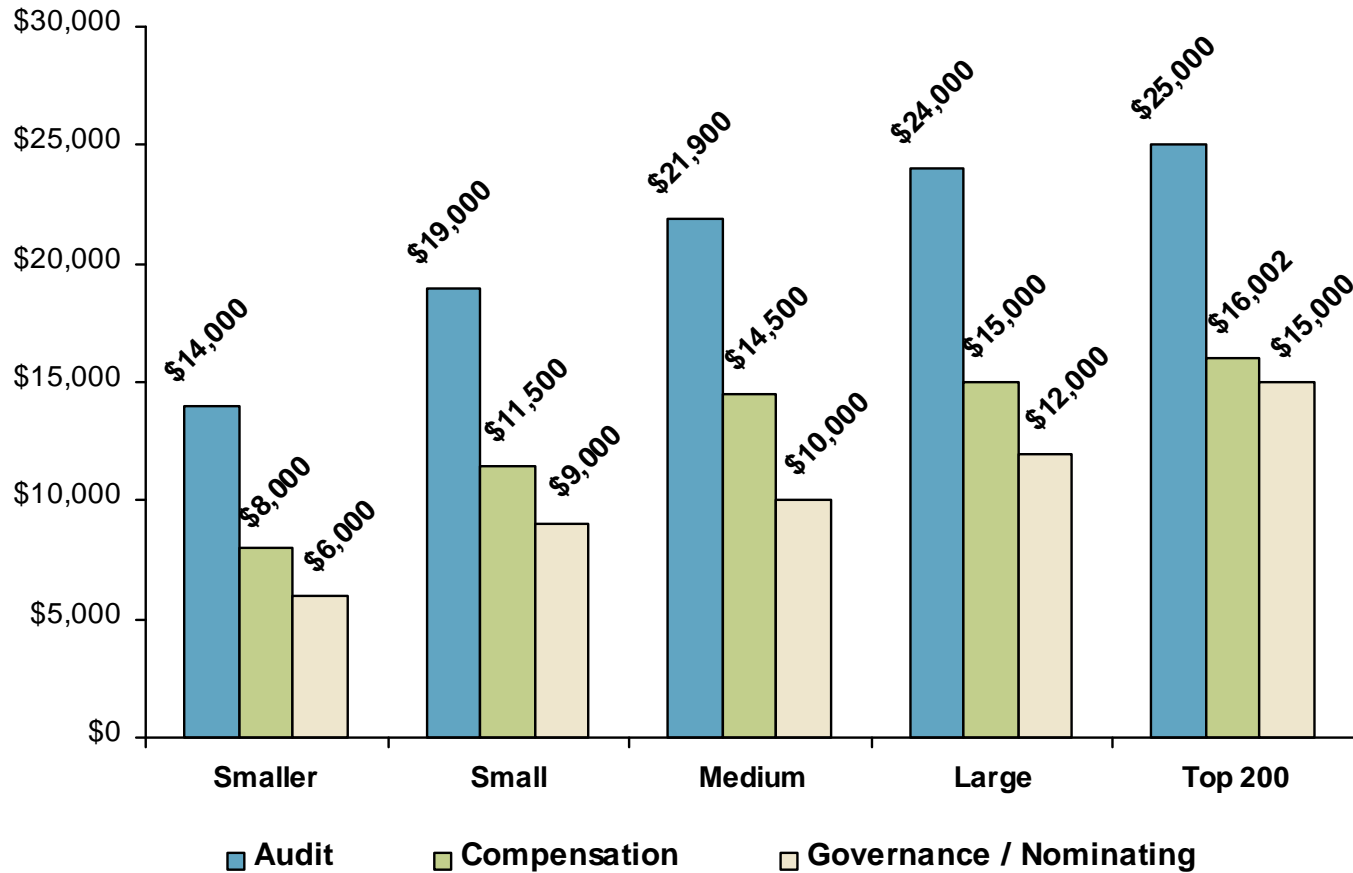
Median Total Committee Compensation Member



... as do the Audit Committee Chairs



Median Total Committee Compensation Chair



Premium pay for board leadership is generally consistent across all 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.

Stock ownership guidelines are 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

Board perquisites and benefits are more prevalent and more likely to be disclosed at larger companies



- As expected, that prevalence of disclosure has declined year-over-year

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%



Compensation Increases

- The down economy has resulted in relatively flat levels of Director compensation over the past two years, but created pent-up demand for pay increases as Directors' time commitments expand.
- We expect single-digit increases in Director pay in 2010, with growth dampened by ongoing scrutiny, and high single-digit to low double-digit increases in 2011 pay following further economic recovery.

Stock Ownership Guidelines

- We expect to see the continued addition of retention ratios and/or holding requirements to existing stock ownership requirements, but no meaningful increase in mandated ownership levels.
- We expect more companies will defer Director equity awards until retirement, but momentum will be limited by a perception that deferral is punitive.



Our Next Webcast:

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Right Results and Rewards***

Thursday, March 25, 2010, 2 PM ET

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March 3 – The Roles of the Lead Director and Chairman

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February 8 – Questions All Directors Should Ask About IT Risk

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CDE Credit Information



If you have any CDE questions, contact:

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To learn more about the National Association of Corporate Directors, visit www.nacdonline.org.

Custom data cuts and questions...



PM&P can create special “cuts” of data based on a number of screening criteria: industry, revenue, geography, market capitalization, and assets.

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