



Board Pay Preview: 2011/12 NACD Director Compensation Study

Compensation Series

January 24, 2012

Pearl Meyer & Partners
Comprehensive Compensation[®]



ADVANCING EXEMPLARY BOARD LEADERSHIP



Meet The Presenters



Richard Goeglein (moderator), Chairman, Pinnacle Entertainment; Member, Advisory Board of The Board of Veteran CEOs; Trustee, Board of Volunteers in Medicine of Southern Nevada.



Jan Koors, a Managing Director and head of PM&P's Chicago office, has more than 20 years of experience in all areas of executive compensation, including value-based annual and long-term incentive plans, salary structure development, subsidiary pay programs and performance measure selection.



Brett Herand, a Vice President in PM&P's Chicago office, has nearly a decade of experience in all areas of executive compensation, including performance measurement and value creation, incentive plan design, and technical advisory work with respect to tax, accounting and SEC regulatory issues.

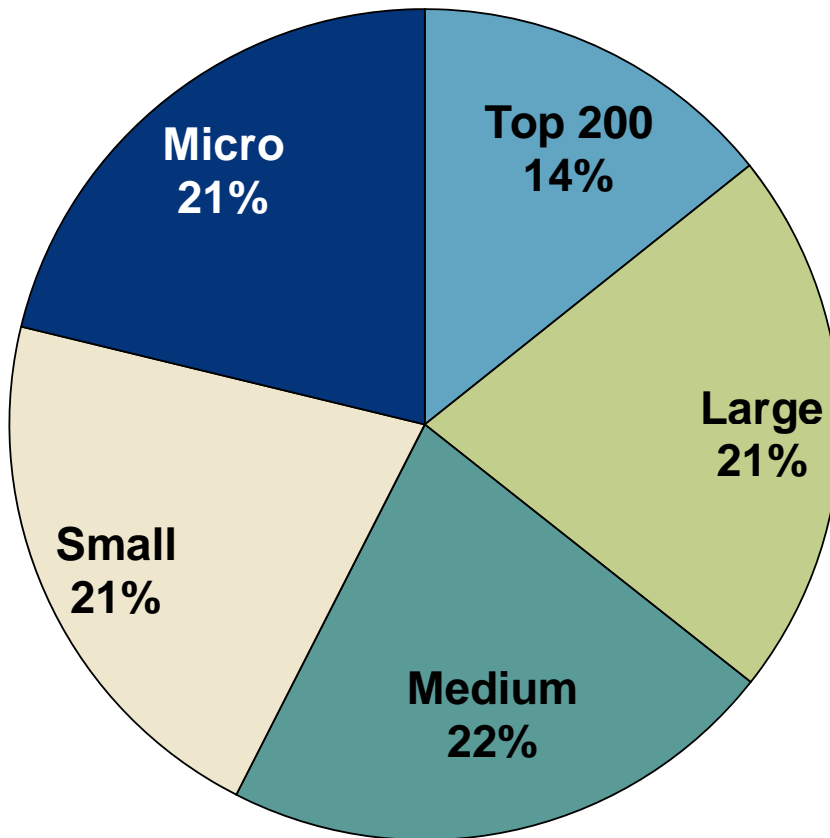




Director compensation data for 1,400 companies grouped by industry & company size



5 Size Categories Based on Annual Revenue



- All companies publicly-traded
- Micro: \$50M-\$500M
- Small: \$500M-\$1B
- Medium: \$1B-\$2.5B
- Large: \$2.5B-\$10B
- Top 200: Largest 200 Companies in the S&P 500
- Across 24 Industries based on GICS at the Group Level





Board composition continues to evolve



	Board Composition				
	Micro	Small	Medium	Large	Top 200
Median Term Length (yrs)	1	1	1	1	1
<i>% with 1 year term</i>	52%	52%	52%	61%	83%
Median Director Age (yrs)	63	63	63	63	64
Median Director Tenure (yrs)	7.8	7.8	7.9	7.4	7.8
Mandatory Retirement Age (yrs)					
<i>Prevalence of disclosure</i>	22%	39%	55%	64%	83%
<i>Median Retirement Age</i>	72	72	72	72	72
Median No. of Directors (a)	8	8	9	10	12
Board Composition					
<i>% of companies with at least 1 female director</i>	47%	58%	71%	82%	99%
<i>% of companies with at least 2 female directors</i>	13%	21%	30%	51%	75%
<i>% of companies with at least 3 female directors</i>	2%	4%	7%	15%	29%
<i>Prevalence of Combined CEO/COB Role</i>	42%	48%	52%	54%	73%

(a) Includes non-employee and employee directors.





This year's study indicates 1% to 8% growth in Total Direct Compensation vs. the prior year



Year-over-Year Total Direct Compensation Trends									
	Median Total Direct Compensation		2011	2010	2009	2008	2007 (a)	2006	2005 (b)
	2011	2010							
Micro	\$96,000	\$90,775	6%	20%	-3%	-5%	7%	16%	11%
Small	\$126,250	\$119,408	6%	10%	-6%	2%	2%	7%	15%
Medium	\$160,007	\$148,476	8%	13%	-2%	1%	5%	2%	16%
Large	\$185,556	\$175,750	6%	7%	-1%	6%	7%	8%	16%
Top 200	\$231,021	\$228,058	1%	5%	1%	4%	5%	12%	11%

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





Year-over-year changes in compensation driven by cash retainer and stock award values



Year-over-Year Change in Compensation by Element					
Board Compensation	Micro	Small	Medium	Large	Top 200
Cash Retainer	14%	19%	7%	10%	0%
Board Meeting Fees (a)(b)	-5%	0%	0%	0%	7%
Total Stock Award (a)	15%	0%	14%	5%	5%
Total Board Compensation	8%	5%	7%	8%	2%
Pay for Committee Service(b)	2%	6%	-1%	5%	-15%
Total Direct Compensation	6%	6%	8%	6%	1%
TDC Per Meeting	14%	11%	12%	14%	14%
Total Board Cost	17%	16%	10%	16%	4%

(a) Only includes companies that pay that element of compensation

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

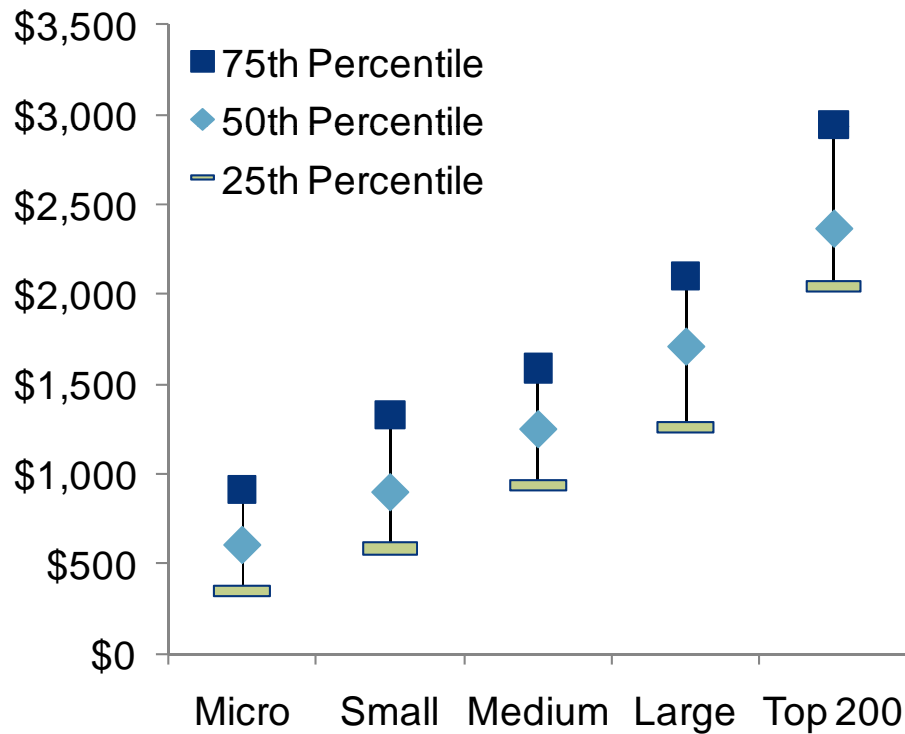




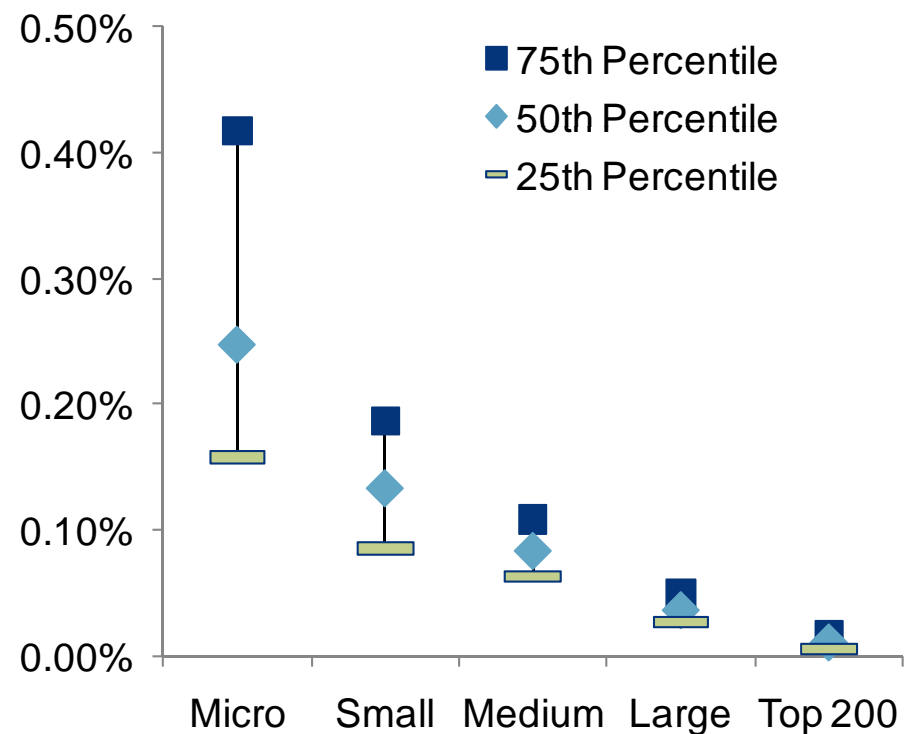
Total Board costs increase with company size, but decrease as a percentage of revenues



Total Board Cost
(\$000s)

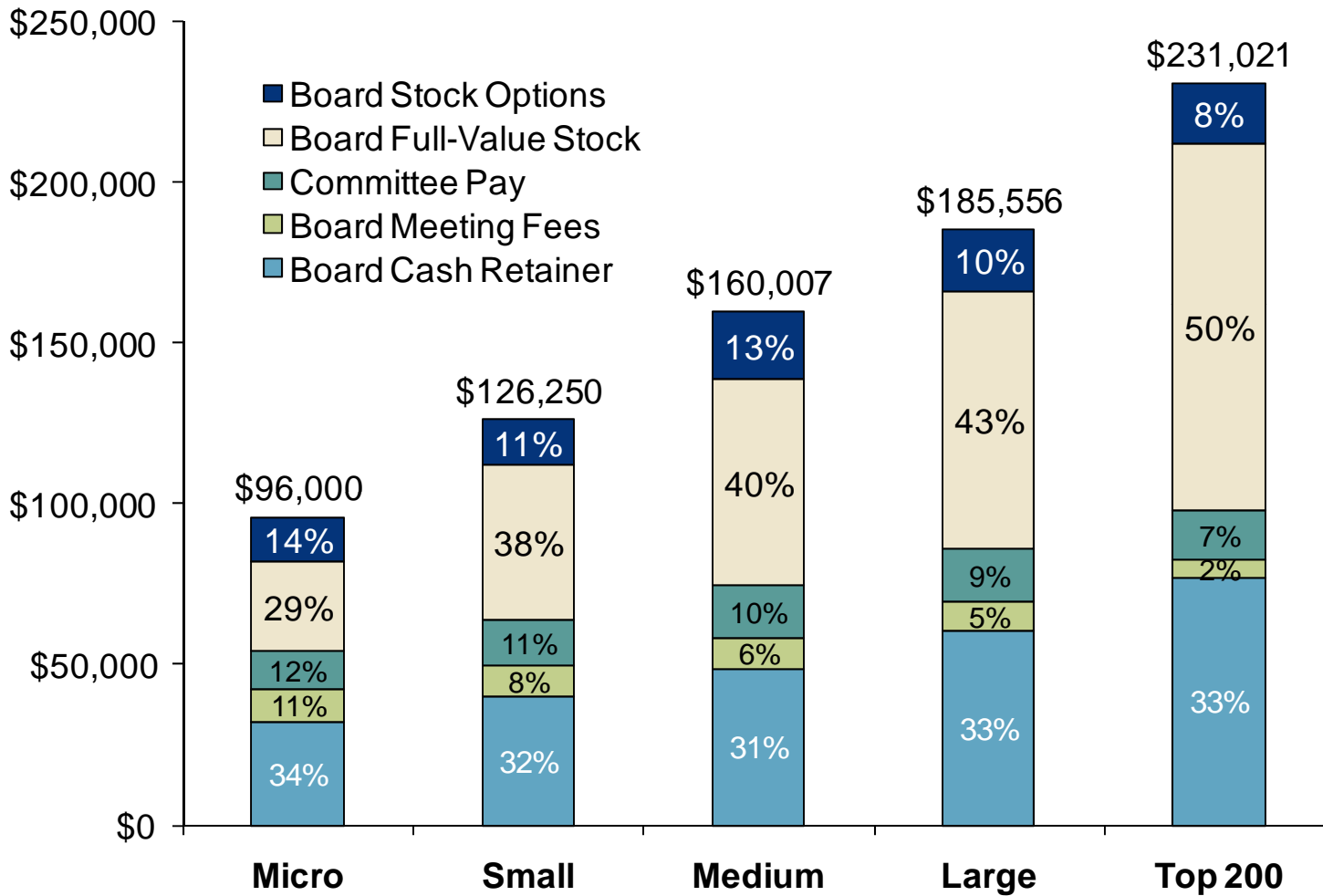


Total Board Cost
(% of revenues)





As company size increases, full-value stock accounts for a larger portion of total pay value





Structure of Board pay continues to evolve



Prevalence of Pay Elements		
	Low	High
Board Compensation		
Annual Cash Retainer	93%	98%
Board Meeting Fees (a)	31%	61%
All Equity Awards (b)	83%	99%
<i>Full-value Shares</i>	64%	94%
<i>Stock Options</i>	23%	34%
Committee Compensation (a)		
Member Fees / Retainers (b)	67%	82%
<i>Member Retainer</i>	33%	42%
<i>Member Meeting Fees</i>	37%	62%
Chair Fees / Retainers (b) (c)	86%	96%
<i>Additional Chair Retainer</i>	82%	95%
<i>Additional Meeting Fees</i>	3%	8%

 = Top 200 Prevalence

(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).

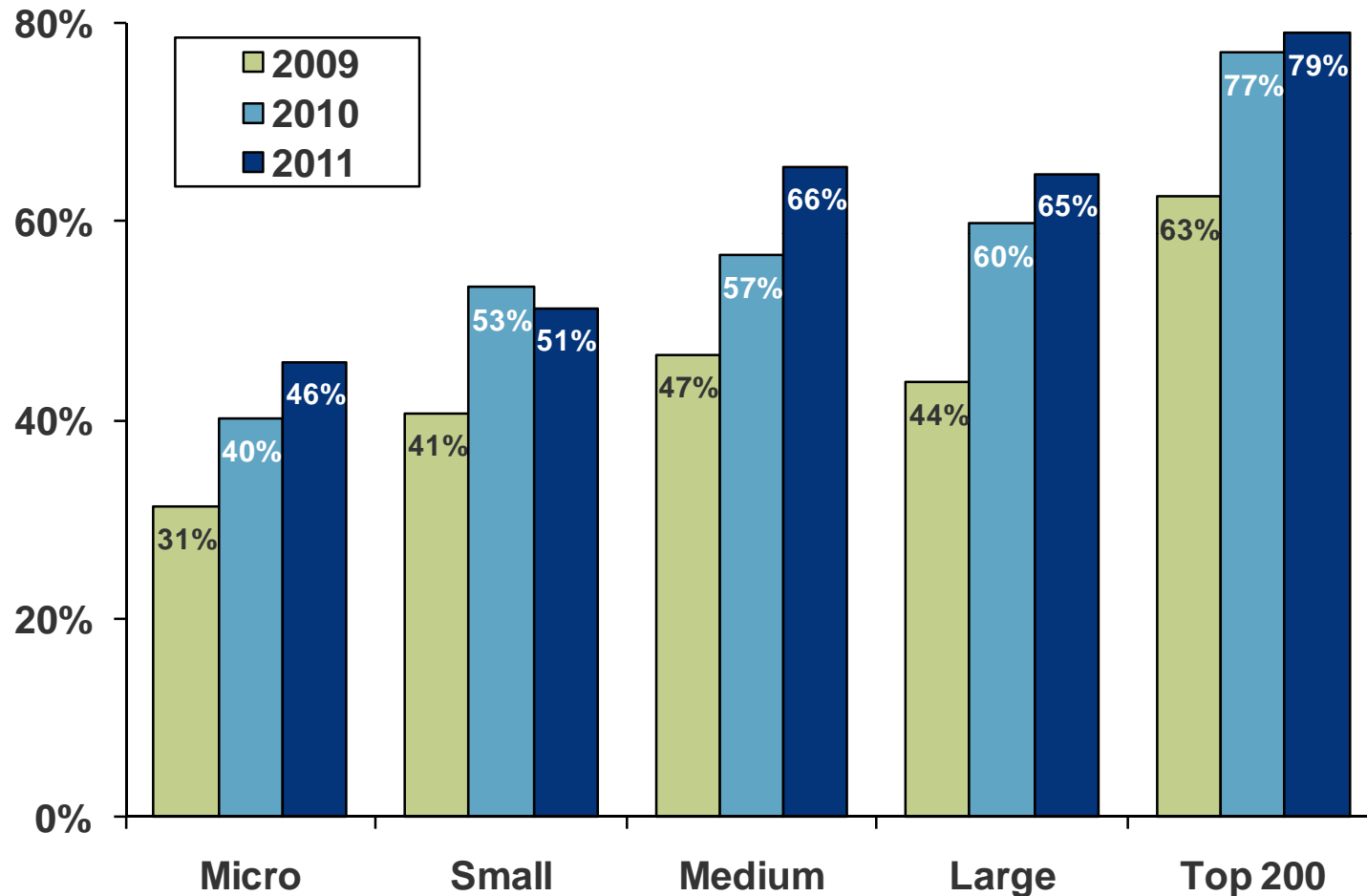




Stock price rebound has put a majority of companies in compliance with NACD Best Practice



% of Companies Delivering 50% or More of Total Director Pay in Equity

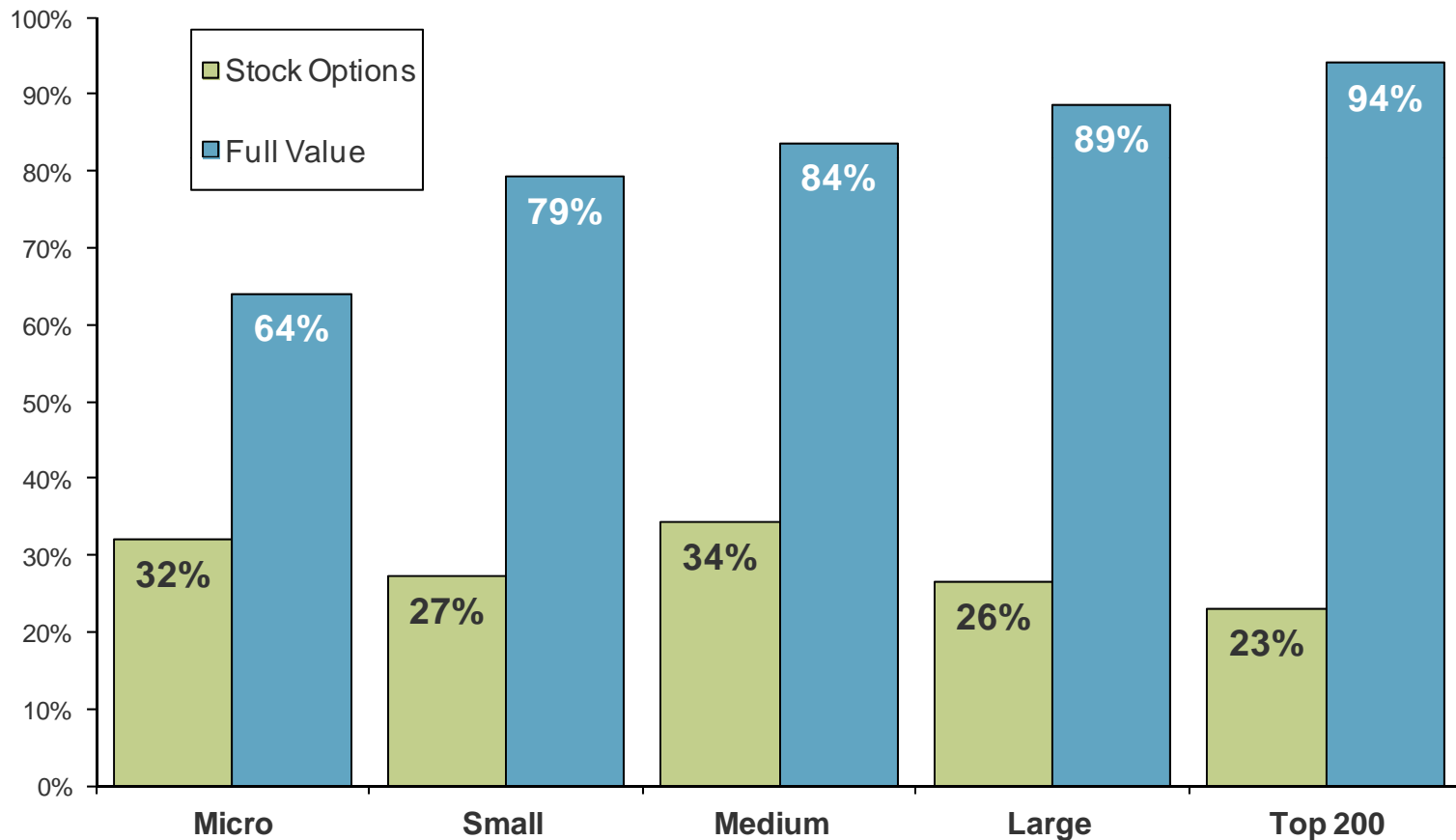




Companies generally deliver equity compensation in full value shares



Prevalence of Stock Option and Full Value Share Equity Grants





Larger companies are more likely to provide fixed-value equity award guidelines



- Larger companies tend to denominate equity as a fixed value award, while smaller companies prefer the fixed share approach.

Equity Grant Practices: Fixed Values vs. Fixed Shares (a)					
Board Equity	Micro	Small	Medium	Large	Top 200
Fixed Shares	51%	39%	36%	26%	19%
Fixed Value	43%	52%	53%	64%	69%
Combination	7%	9%	11%	9%	13%

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

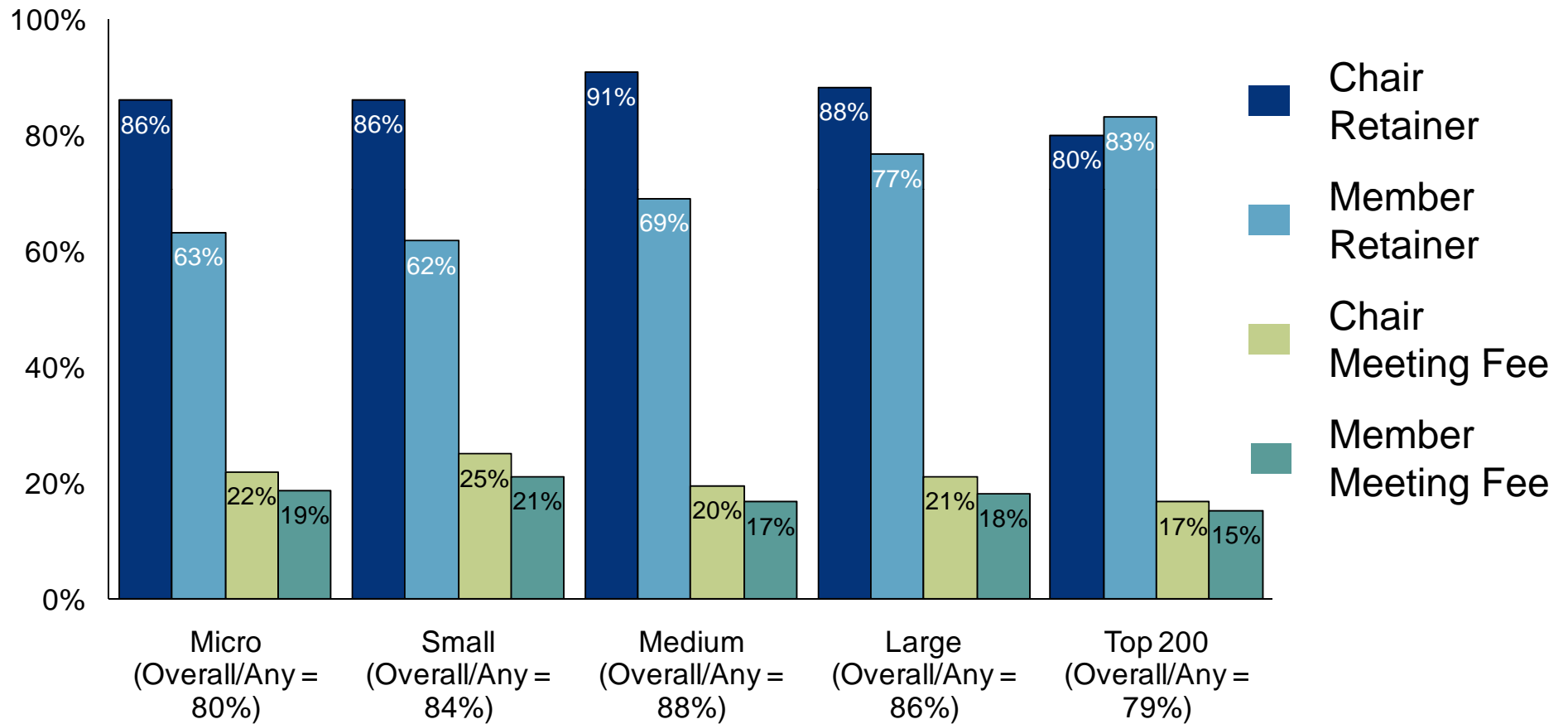




Committee pay is most often differentiated in the retainer



Prevalence of Differentiated Pay Among Major Board Committees

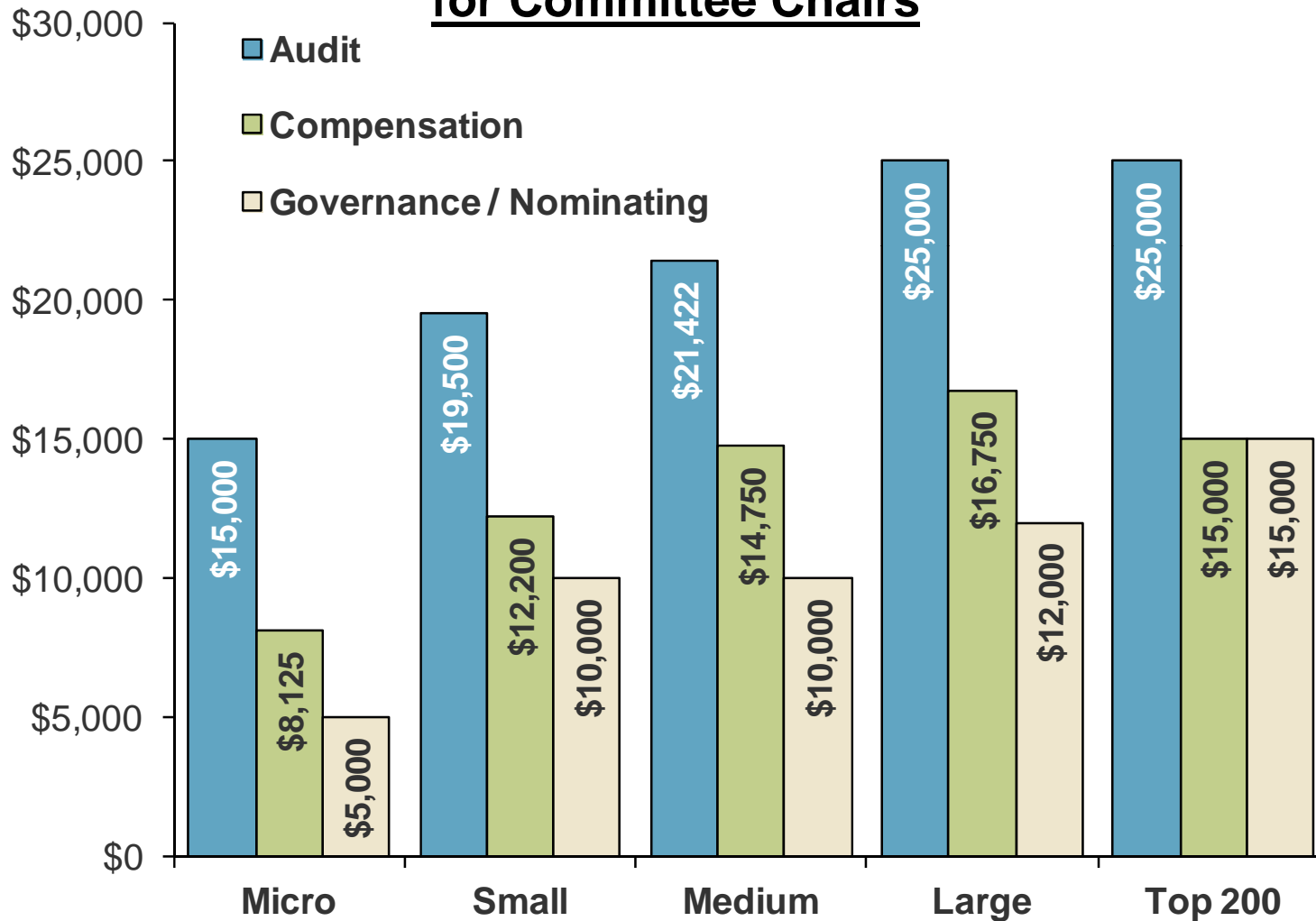




Audit Committee Chairs generally paid at least 50% more than other Committee Chairs



Median Total Compensation (Retainer and Meeting Fees) for Committee Chairs

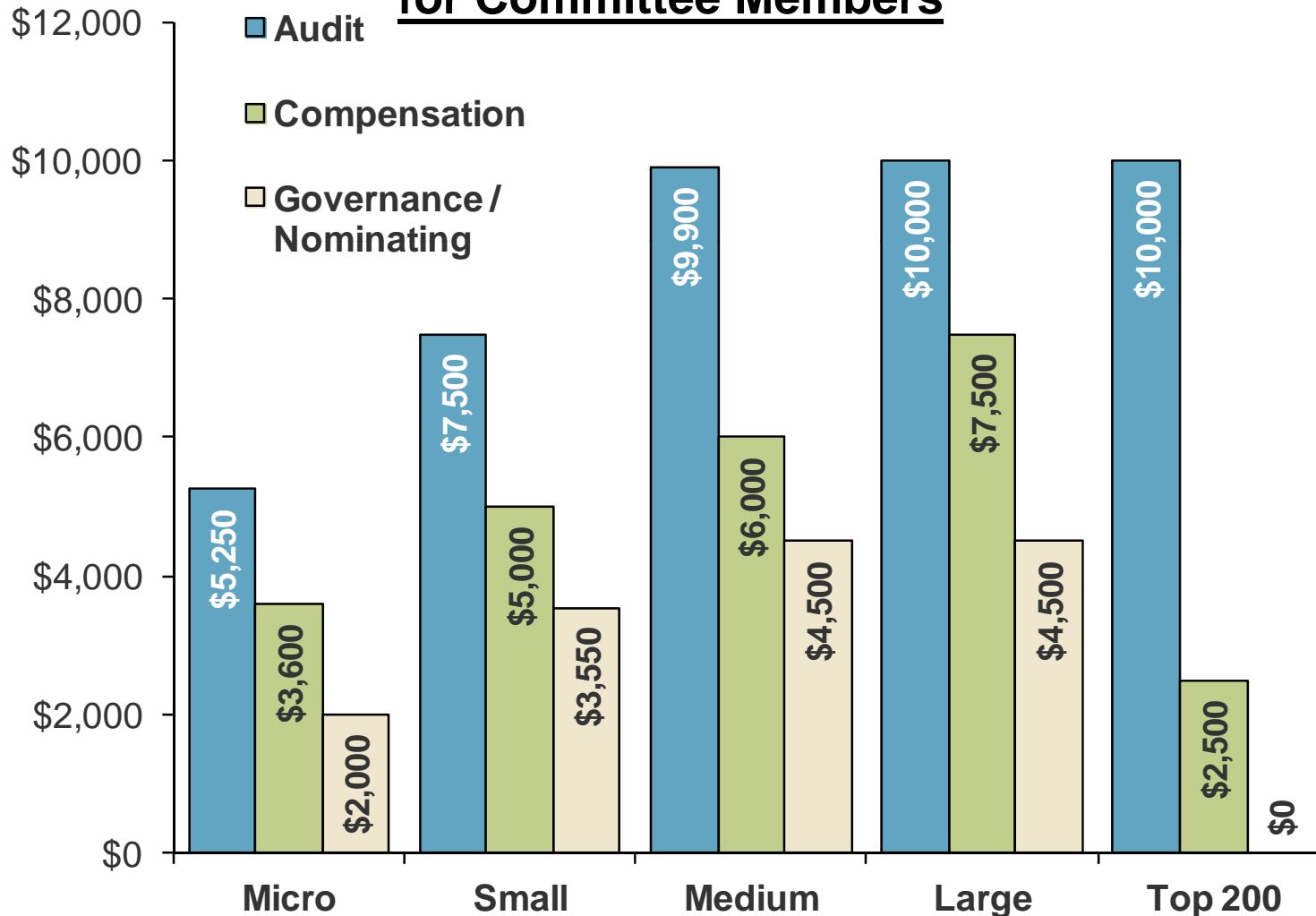




Audit Committee Members receive premium compensation compared to members of other Committees



Median Total Compensation (Retainer and Meeting Fees) for Committee Members





The prevalence of premium compensation for outside Board leadership continues to climb



- The increase is driven by an increase in companies that are providing premium compensation to Lead Directors
- Non-executive Chairs continue to receive a larger compensation premium relative to Lead or Presiding Directors

Compensation for Non-Executive Board Leadership						
	Prevalence of Premium Pay for Non-Executive Chairs (a)	Prevalence of Premium Pay for Lead/ Presiding (a)	Median Total Direct Compensation for Non-Executive Board Leadership (b)		Median Multiple of NED Total Direct Compensation for Non-Executive Board Leadership (b)	
			Non-Executive Chairs	Lead / Presiding	Non-Executive Chairs	Lead / Presiding
Micro	85%	49%	\$126,750	\$105,725	1.52	1.12
Small	87%	59%	\$181,559	\$125,000	1.49	1.13
Medium	89%	60%	\$226,860	\$167,000	1.56	1.11
Large	83%	63%	\$300,000	\$193,700	1.64	1.12
Top 200	78%	61%	\$389,500	\$234,178	1.90	1.11

(a) Prevalence reflects companies with that type of Independent Board Leadership

(b) Excludes fees for committee service





Ownership guidelines are typically expressed as a multiple of annual cash retainer



- Most director equity programs are structured to facilitate compliance with ownership guidelines
- Median multiple of retainer requirement increased from last year:
 - Small and Medium Companies: 3x to 4x
 - Large and Top 200 companies: 4x to 5x

Prevalence of Stock Ownership Guidelines					
	Micro	Small	Medium	Large	Top 200
% of Companies with Any Form of Guideline	31%	56%	65%	75%	89%
% of Companies with Dollar-based Guideline	4%	9%	7%	9%	12%
% of Companies with a Multiple of Retainer Guideline	18%	33%	42%	49%	53%
% of Companies with Share-based Guideline	7%	14%	16%	18%	21%
% of Companies with Retention Ratio Guideline	4%	4%	10%	9%	11%

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





Board perquisites and benefits are more prevalent at larger companies



- Prevalence may be related to the higher probability of disclosure as company size increases
- Directors typically do not participate in the Company’s retirement plan

Prevalence of Perquisites/Benefits					
	Companies Disclosing Any Perquisite	Gift Matching / Charitable Gifts	Insurance (a)	Company Products, Services & Discounts	Spousal Travel
Micro	6%	2%	1%	1%	1%
Small	14%	5%	3%	3%	1%
Medium	20%	12%	3%	5%	3%
Large	32%	22%	2%	9%	6%
Top 200	64%	50%	5%	13%	15%

(a) Generally reflects Company-paid health/welfare insurance (excludes group life and accidental death, business travel accident, Director & Officer liability, and insurance used to fund charitable programs)





Key Takeaways



Compensation Increases

- Mid-single-digit increases for companies with less than \$10B in revenue, driven by increase in cash retainer and stock award values
- Almost no change in TDC for the **Top 200** companies, driven by a small increase in equity award value and a decrease in Committee pay

Outlook for next several years: low to mid-single-digit increases in director pay driven by increases due to:

- Release of some pent-up demand at Board level to review director pay
- An increase in the time commitment, expertise, and accountability, and
- Greater regulatory requirements.

Increases tempered by

- A reluctance to increase Director pay in the face of a stubbornly high unemployment rate and,
- Modest pay increases for executives and broad employee population





Additional Resources



DIRECTOR COMPENSATION REPORT

2011-2012

Published by the National Association of Corporate Directors

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