



ENGAGED DIRECTORS.  
EFFECTIVE BOARDS.<sup>®</sup>

# Trends in Director Compensation

Findings from the 2007

NACD/PM&P Director Compensation Report

## **Peter R. Gleason**

Managing Director and Chief Financial Officer

National Association of Corporate Directors

Mr. Gleason serves as treasurer for the NACD board of directors and leads the Center for Board Leadership, the research arm of the NACD.

## **Jannice L. Koors**

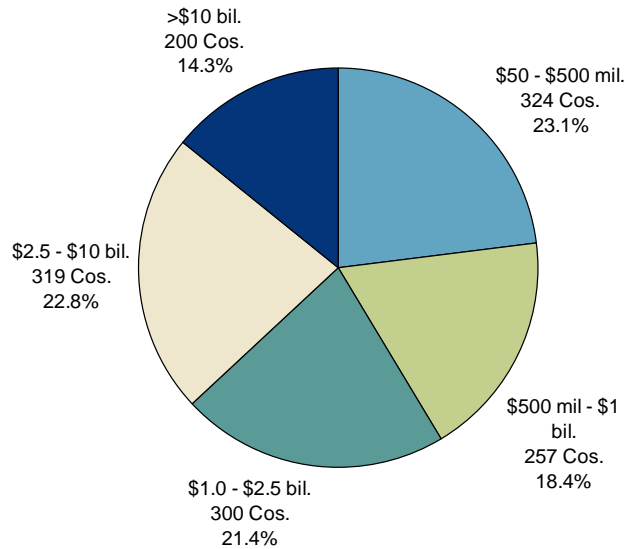
Managing Director

Pearl Meyer & Partners, New York

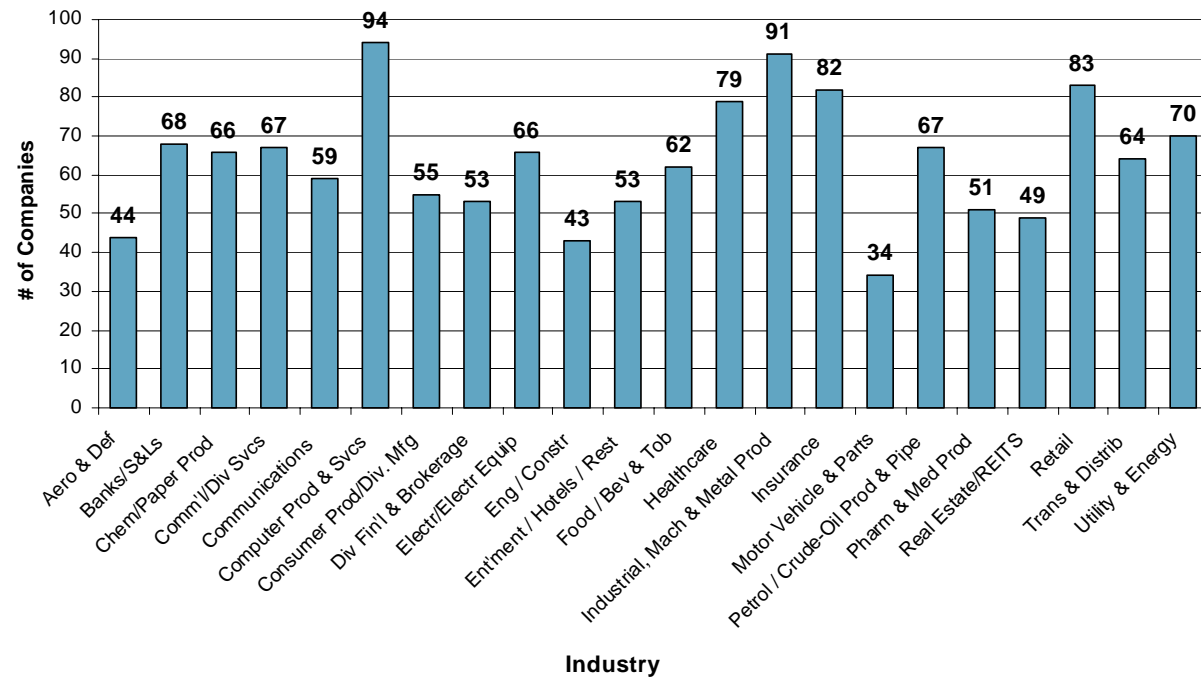
Ms. Koors has more than 20 years of experience advising clients in all areas of executive and Director compensation and oversees the firm's proxy research.

# Annual NACD survey analyzed non-employee director compensation for 1400 companies

**1400 NACD Survey Companies by Company Revenues**



**1400 NACD Survey Companies by Industry**



# Smaller companies follow the lead of Top 200 with regard to Board composition and structure

## Board Composition and Structure

	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
No. of companies	324	257	300	319	200
Median Term Length (yrs)	3	3	3	3	1
<i>% with 1 year term</i>	47%	44%	44%	47%	67%
<i>% with term &gt;1 year</i>	53%	56%	56%	53%	33%
Retirement Age (yrs)					
<i>Prevalence of disclosure</i>	26%	32%	45%	68%	81%
<i>Median Ret. Age</i>	72	72	72	72	72
<i>Age Range (25th-75th Perct.)</i>	70 - 75	70 - 74	70 - 72	70 - 72	70 - 72
No. of Total Directors	7	8	9	10	11
Board Composition (Median)					
<i>Male</i>	100% (a)	91%	89%	89%	83%
<i>Female</i>	0% (a)	9%	11%	11%	17%

(a) On average, Smaller companies consist of 94% male directors and 6% female directors.

# As expected, 2007 growth rates were more modest than the recent past



## Median Total Direct Compensation by Company Size

Company Size	2007 (a)	2006	Prior Year-to-Year Trends					
			2007 vs. 2006 (a)	2006 vs. 2005	2005 vs. 2004 (b)	2004 vs. 2003 (b)	2003 vs. 2002 (b)	2002 vs. 2001 (b)
Smaller (\$50 - \$500 mil.)	\$79,165	\$74,332	7 %	16 %	11 %	36 %	-10 %	1 %
Small (\$500 mil - \$1 bil.)	112,923	110,500	2	7	15	20	11	7
Medium (\$1 - \$2.5 bil.)	139,903	132,760	5	2	16	23	9	9
Large (\$2.5 - \$10 bil.)	167,667	157,165	7	8	16	22	7	7
Top 200 (> \$10 bil.)	215,000	204,975	5	12	11	14	1	1

(a) Director compensation methodology was modified in 2007. Values based on old methodology for comparable year-over-year growth percentages.

(b) Prior surveys (2005 and earlier) reported average data rather than median; year-to-year changes represent change in average compensation levels.

# PM&P updated methodology to more accurately reflect “real” director compensation levels



- Committee compensation based on actual committee assignments of incumbent directors
- Stock options are valued according to each company’s annual meeting date Black-Scholes value
- Directors are compensated for in-person and telephonic meetings

## Median Total Direct Compensation

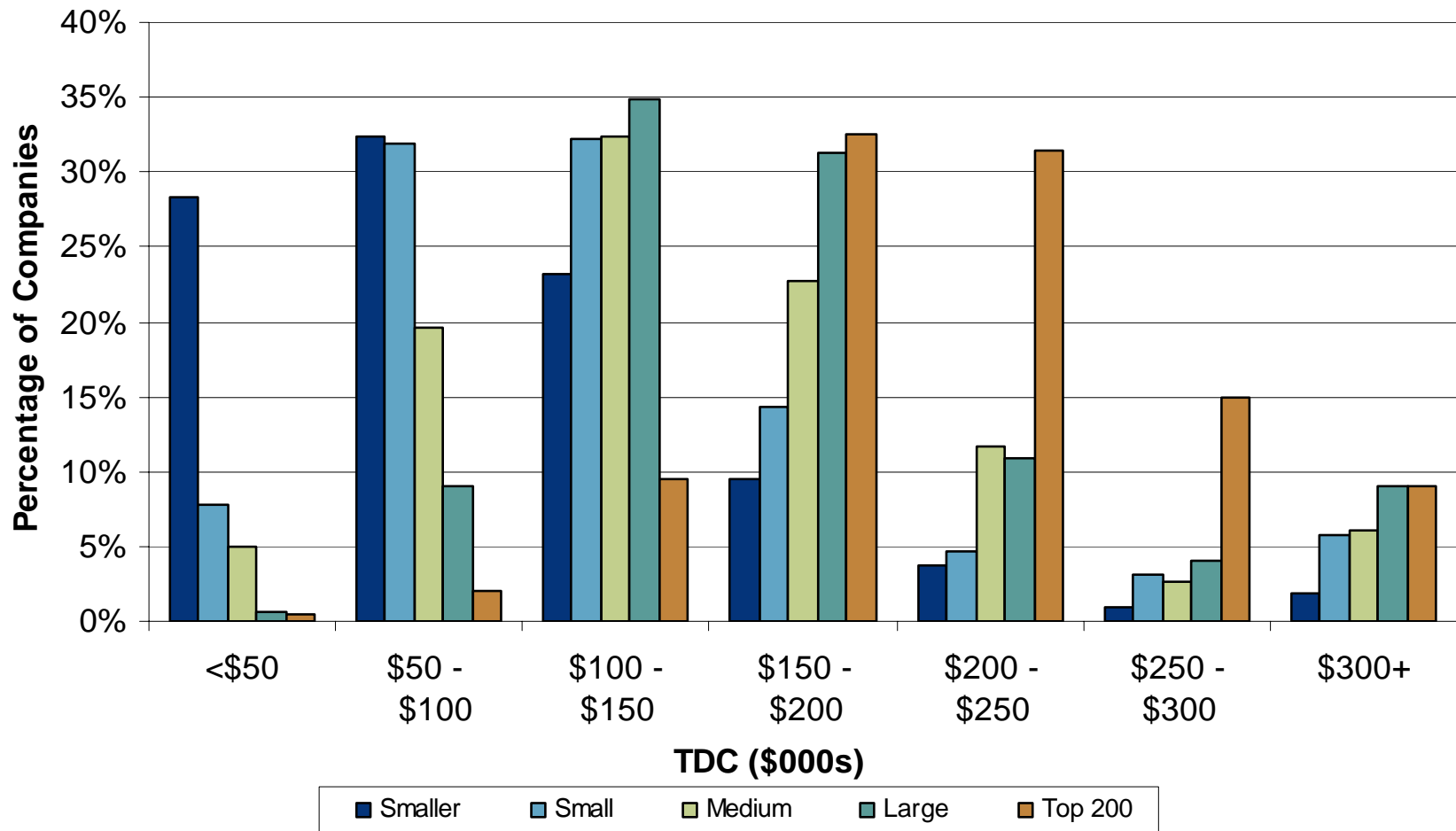
### Old Methodology Versus New Methodology - Side By Side Comparison

Co. Size	Old Methodology						Total Direct Comp.	New Methodology				Differential New vs. Old Methodology	
	Annual Cash Retainer	Total Board Mtg Fees (Excl. \$0s)(a)	Total Equity	Average Committee Fees				Annual Cash Retainer	Total Board Mtg Fees (Excl. \$0s)(a)	Total Equity	Avg. Total Comm. Service		Total Direct Comp.
				Chair	Member	Total							
Smaller	\$25,000	\$10,000	\$29,942	\$8,500	\$4,000	\$12,750	<b>\$79,165</b>	\$25,000	\$10,000	\$34,776	\$8,750	<b>\$81,951</b>	3.5%
Small	30,000	10,500	55,651	12,000	5,833	18,000	<b>112,923</b>	30,000	10,500	58,000	12,143	<b>114,000</b>	1.0%
Medium	35,000	13,200	71,980	14,667	7,233	21,917	<b>139,903</b>	35,000	13,500	72,545	14,163	<b>132,699</b>	-5.1%
Large	45,000	12,125	84,420	15,000	7,667	22,500	<b>167,667</b>	45,000	12,500	83,000	15,313	<b>156,818</b>	-6.5%
Top 200	60,000	16,000	110,199	18,667	7,958	25,333	<b>215,000</b>	60,000	16,000	110,199	17,054	<b>205,759</b>	-4.3%

(a) Reflects only those companies using pay component (i.e., summary data excludes \$0s).

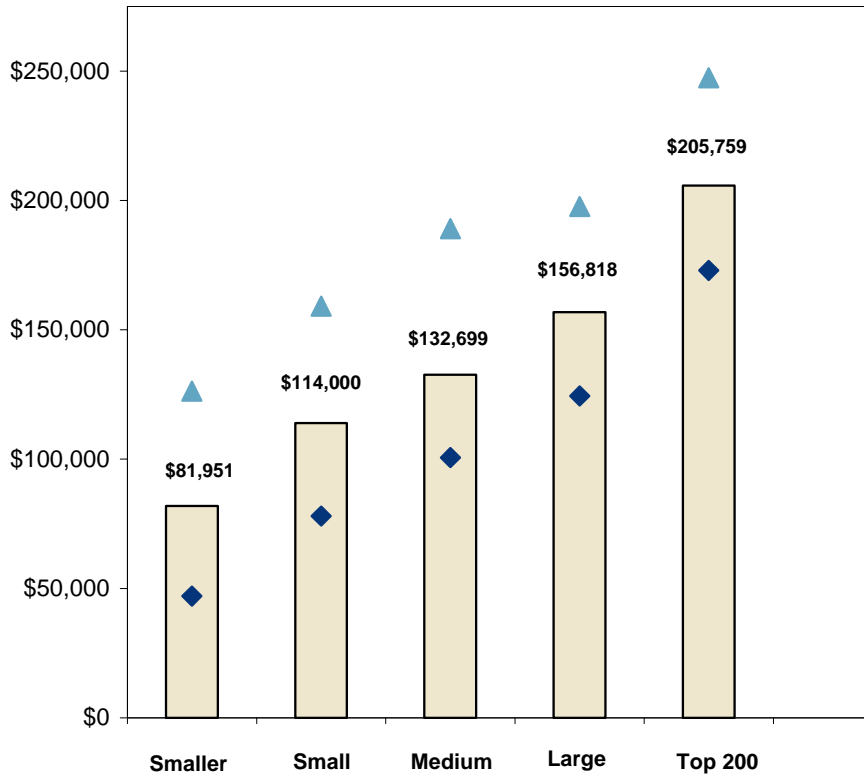
# Distribution of total direct compensation (TDC) is widespread across all 1400 companies

## Distribution by Total Direct Compensation (\$000s)

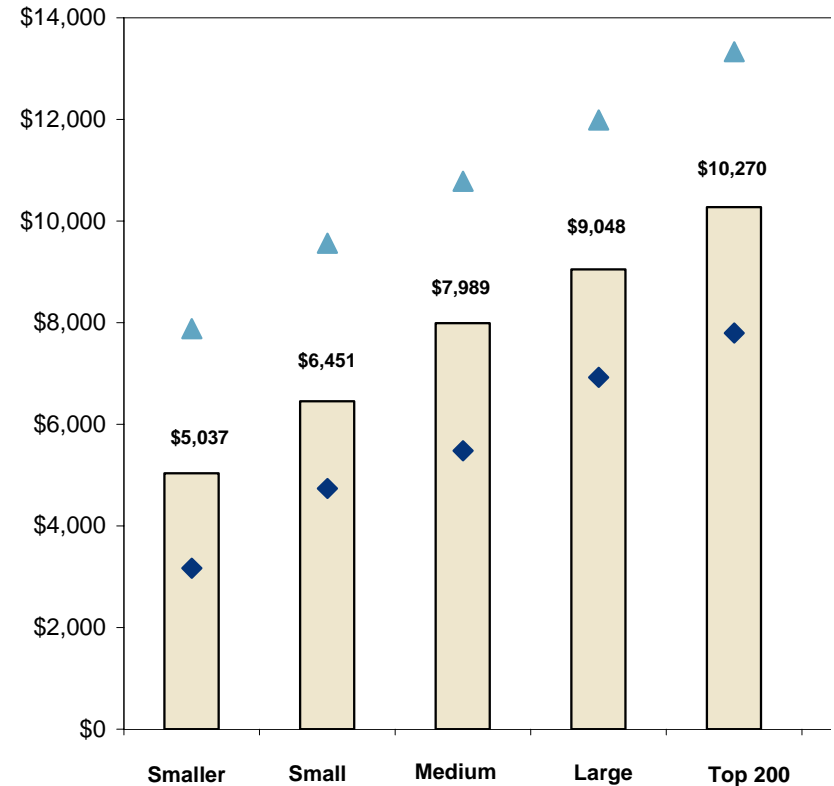


# As expected, TDC and TDC per meeting are correlated with company revenue size

### AVERAGE TDC

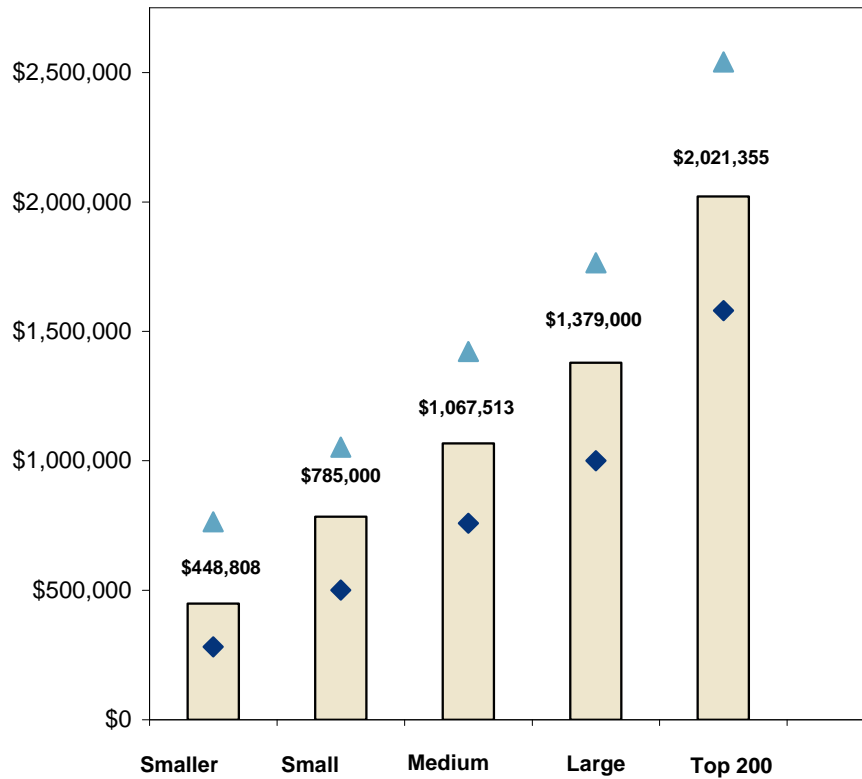


### TDC PER MEETING

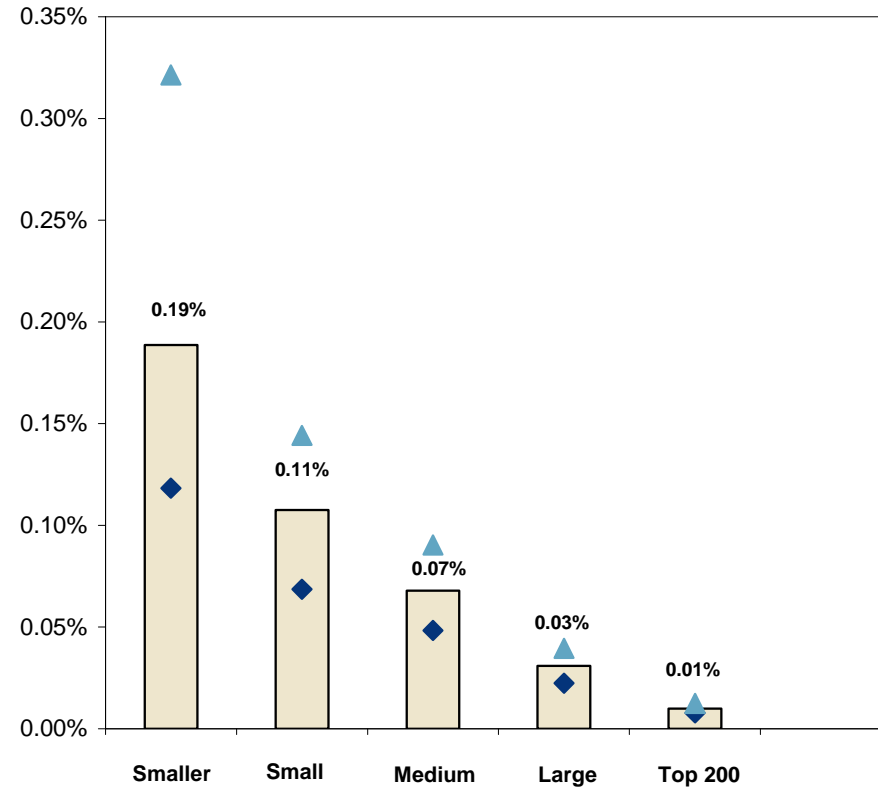


# While Total Board Cost increases with size, the cost as a percent of company revenues actually decreases

**TOTAL BOARD COST**

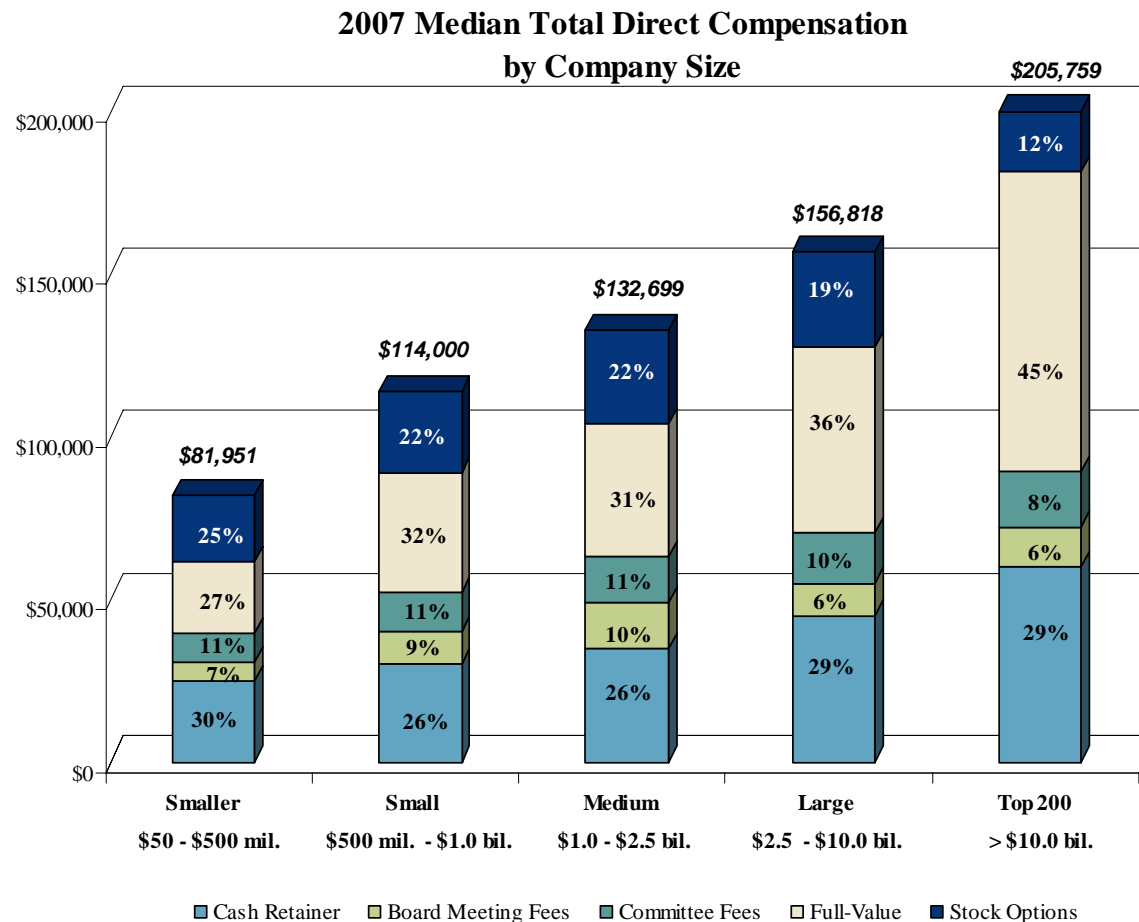


**TOTAL BOARD COST AS PERCENT OF MEDIAN REVENUE**



# Similar to last year's findings, the resulting pay mix is fairly consistent across size groups

- As company size increases, pay is more heavily weighted towards equity in the form of full-value shares



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

- Decline in Board meeting fee prevalence among all size groups
- Increase in use of full-value shares; decrease in use of options
- Committee pay remains a significant component of total direct compensation among all size groups

2007 Prevalence of Pay Elements by Company Size					
	Smaller	Small	Medium	Large	Top 200
<b>Board Compensation</b>					
Annual Cash Retainer	96%	95%	99%	96%	98%
Board Meeting Fees (a)	67%	72%	74%	63%	51%
All Stock Awards (b)	84%	92%	93%	97%	99%
<i>Full-Value Shares</i>	52%	62%	70%	77%	89%
<i>Stock Options</i>	48%	46%	45%	42%	35%
<b>Committee Compensation (a)</b>					
Member Fees/Retainers (b)	83%	87%	86%	84%	75%
<i>Member Retainer</i>	29%	28%	29%	33%	34%
<i>Member Meeting Fees</i>	67%	71%	72%	64%	55%
Chair Fees/Retainers (b)(c)	95%	96%	97%	97%	99%
<i>Additional Chair Retainer</i>	78%	87%	89%	90%	93%
<i>Additional Meeting Fees</i>	10%	10%	11%	7%	8%

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

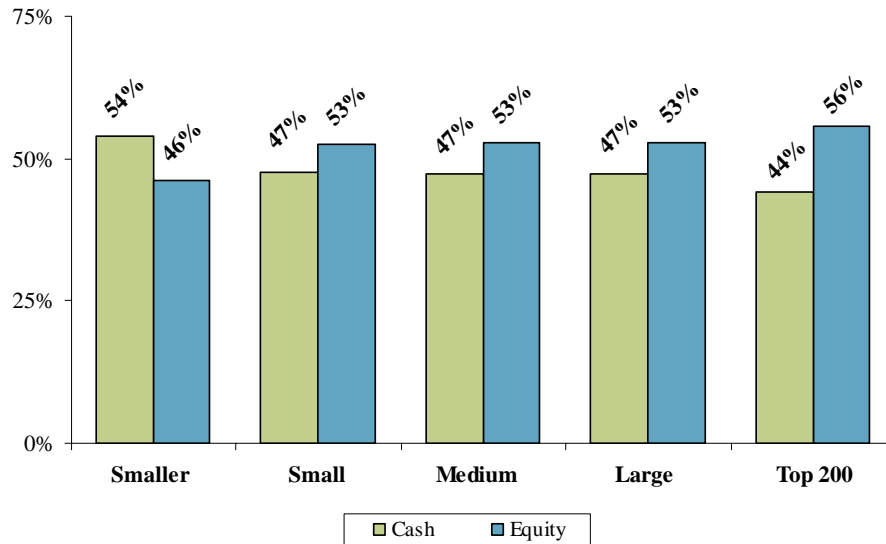
(b) Median figures are non-additive.

(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).

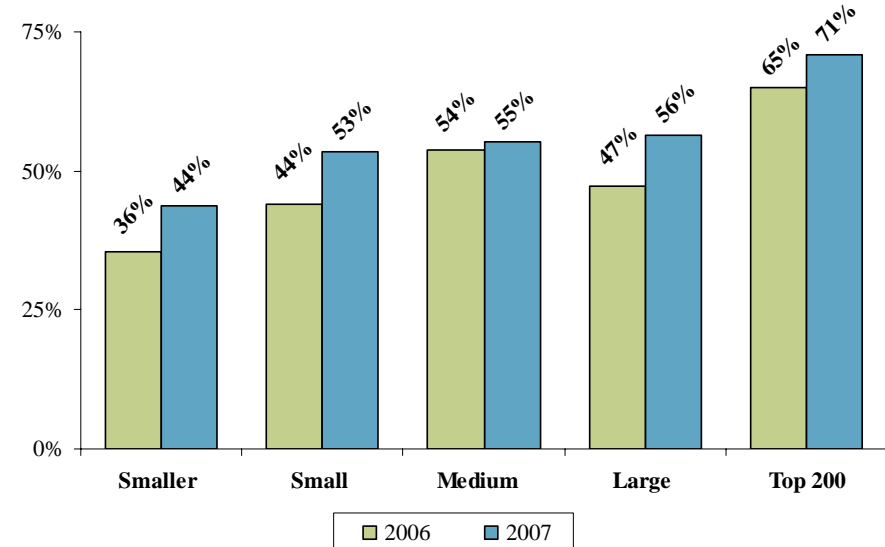
# More companies are delivering a greater portion of compensation through equity . . .

- Except for the Smaller size cut, the majority of companies in each size cut is in compliance with NACD's Best Practice of providing at least 50% of compensation to directors in equity

2007 Median Cash vs. Equity Mix (as a Percent of Total Direct Compensation) by Company Size



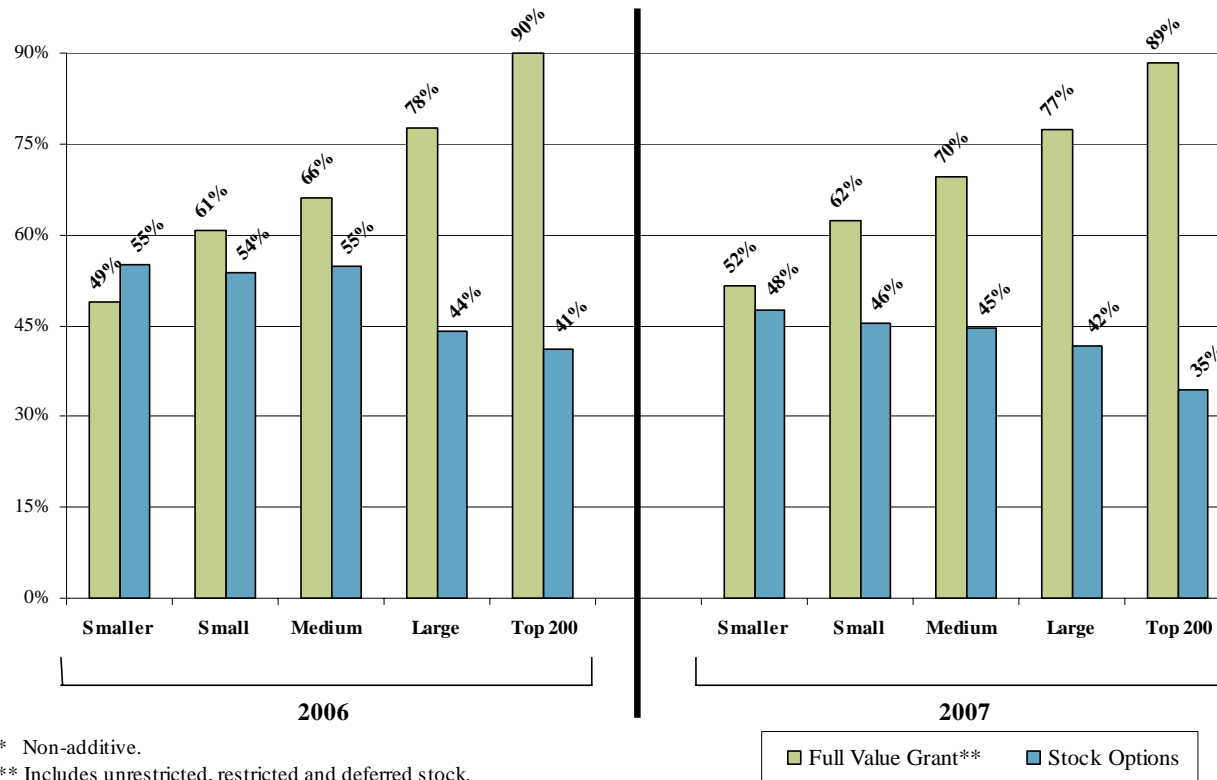
Prevalence of Companies in Compliance with NACD's Best Practice (Deliver 50% or More of Total Direct Compensation in Equity)



# ... and more than half of the companies across all size cuts use full-value shares

- From 2006 to 2007, use of full-value shares remained relatively flat, while option use decreased across all size cuts

2006 and 2007 Prevalence of Full Value Grants and Stock Options by Company Size\*



# Audit, Compensation and Governance / Nominating are still the most prevalent standing committees



## Prevalence of Standing Committees

<b>Committee</b>	<b>Smaller</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Top 200</b>
Audit	100%	100%	100%	100%	100%
Compensation	99%	99%	100%	99%	100%
Governance / Nominating	83%	87%	91%	92%	99%
Executive	23%	26%	29%	42%	50%
Finance	9%	14%	17%	29%	45%
Public Issues / Policy	3%	5%	9%	11%	24%
Environment / Health / Safety	0%	3%	1%	5%	6%
Technology	3%	2%	1%	3%	6%
Strategic Planning	7%	8%	7%	5%	4%
Investment	1%	0%	1%	0%	4%
Nuclear	0%	0%	0%	1%	3%
Risk	0%	1%	0%	1%	3%
Special	1%	2%	1%	1%	3%
Pension	1%	1%	3%	1%	3%
Acquisitions	1%	1%	1%	0%	2%

# Committees continue to meet more frequently than they did prior to 2004, but number of committee meetings has stabilized over past three years

<b>2006 Median Number Committee Meetings</b>					
<u>Committee</u>	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Audit	7	8	8	9	10
Compensation	4	5	5	5	6
Governance / Nominating	2	3	4	4	5

<b>2005 Median Number Committee Meetings</b>					
<u>Committee</u>	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Audit	7	9	9	9	9
Compensation	4	5	5	5	6
Governance / Nominating	3	3	4	4	5

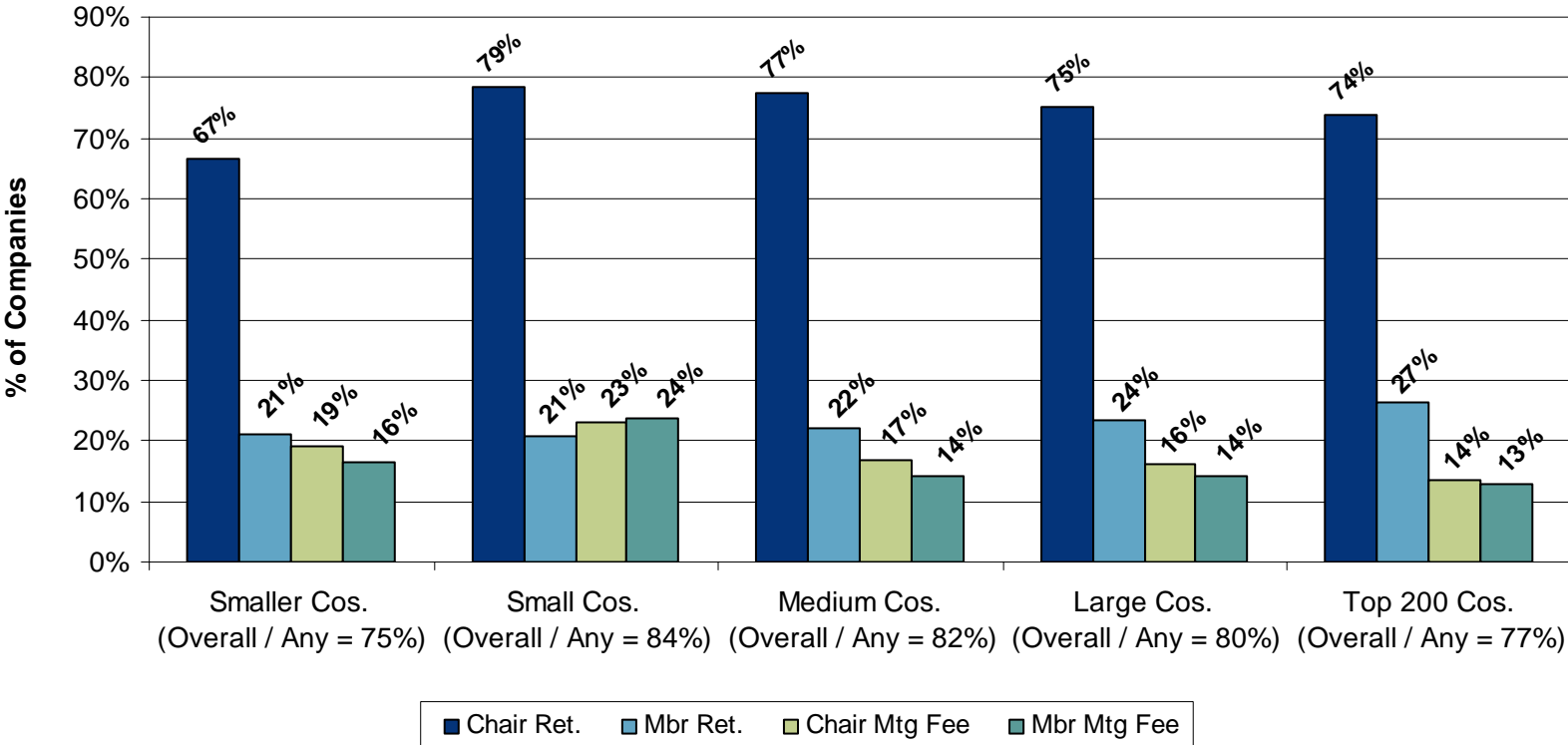
<b>2004 Average Number Committee Meetings</b>					
<u>Committee</u>	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Audit	7	8	9	9	9
Compensation	4	5	5	5	6
Governance / Nominating	2	3	4	4	5

<b>2003 Average Number Committee Meetings</b>					
<u>Committee</u>	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Audit	5	6	6	7	7
Compensation	3	4	4	5	5
Governance / Nominating	2	2	3	3	3

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

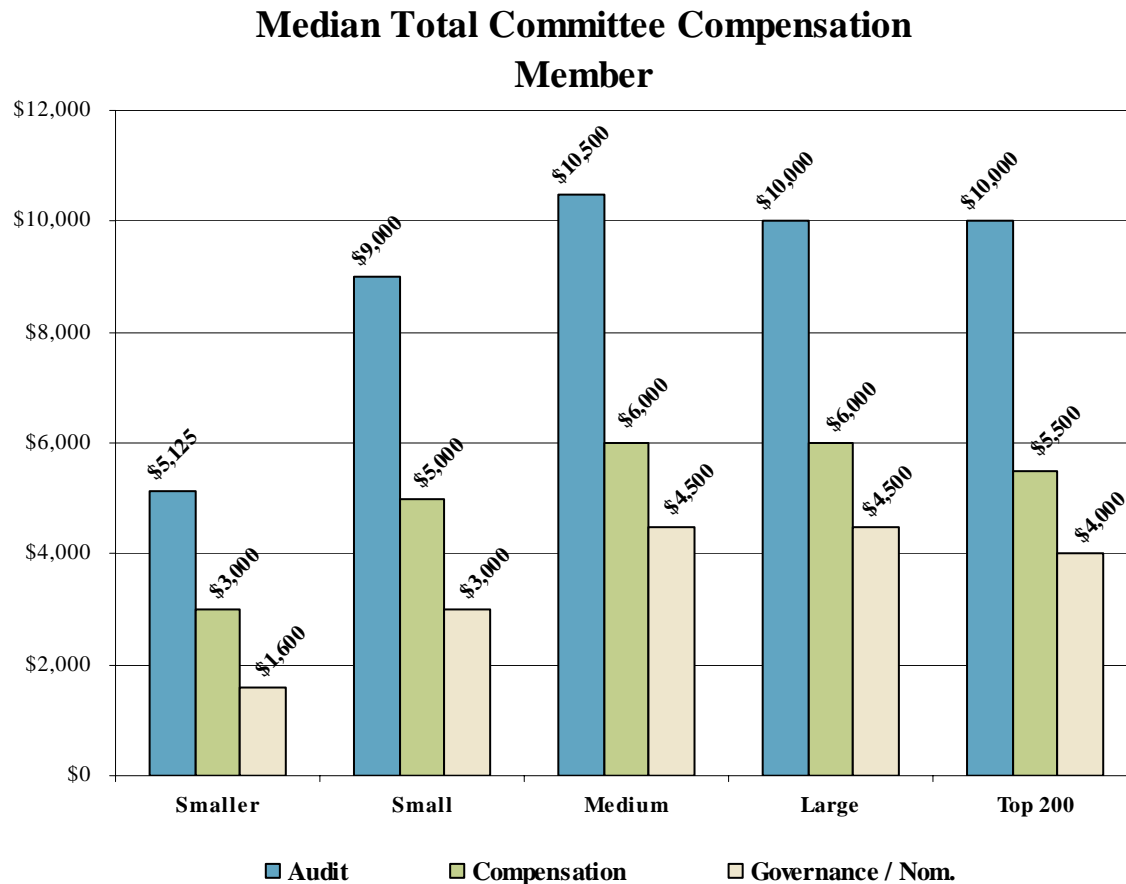
- Prevalence of differentiated pay increased between 2% - 10%, depending on size category
- Most often, differentiation is manifested in Committee Chair pay

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



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

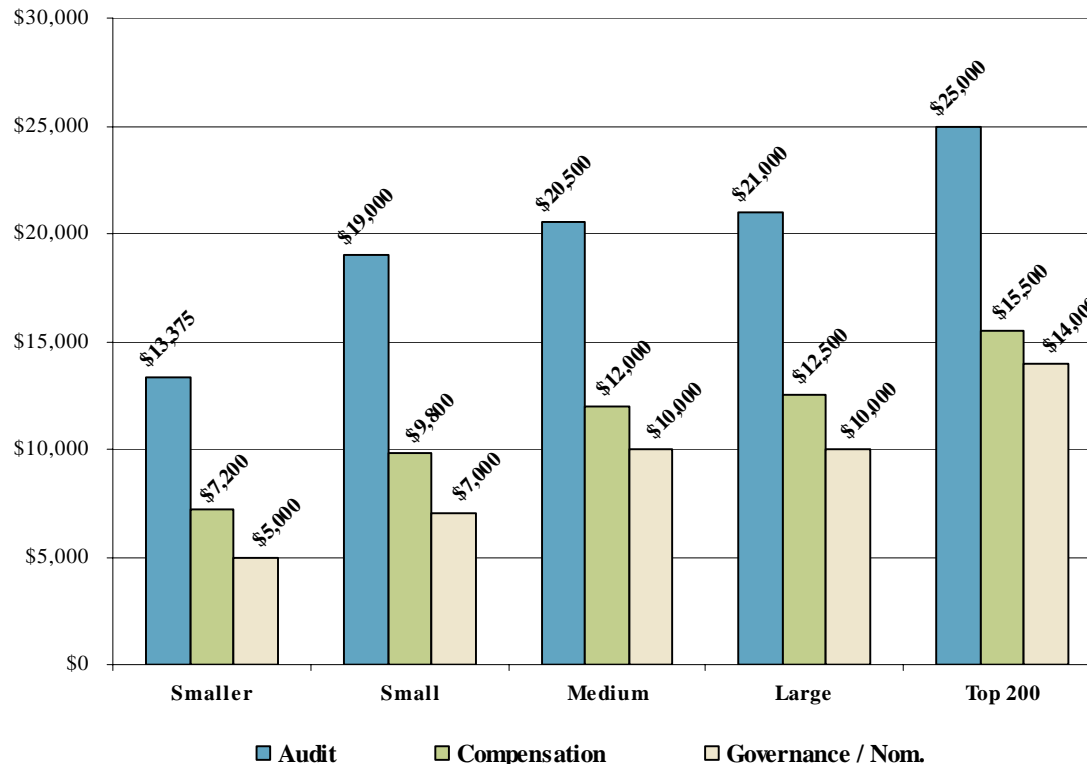
- Except for Medium companies, median total committee member compensation was equal to or lower than last year



# ... as do the Audit Committee Chairs

- Unlike committee member pay, committee chair compensation levels were generally equal to or greater than last year
  - The exception was Compensation Committee chair pay among Small companies

Median Total Committee Compensation  
Chair



# Prevalence of premium pay for board leadership appears to be consistent across all size cuts

- **Non-Executive Chairs receive 67% to 86% more pay than other Board members, while Lead Directors receive 13% to 27% more pay than other Board members**

<b>Non-Executive Chair / Lead Director / Presiding Director Compensation</b>					
<b>Size Cut</b>	<b>Prevalence of Premium Pay for Board Leadership</b>	<b>Multiple Above Other NEDs Total Board Pay</b>			
		<b>Non-Executive Chairs</b>		<b>Lead / Presiding</b>	
		<b>Average</b>	<b>Median</b>	<b>Average</b>	<b>Median</b>
Smaller	43%	1.77	1.71	1.27	1.27
Small	43%	1.78	1.78	1.22	1.18
Medium	45%	1.88	1.81	1.24	1.22
Large	43%	2.06	1.67	1.12	1.13
Top 200	43%	2.19	1.86	1.14	1.15

## As expected, expanded proxy disclosure has increased disclosure of ownership guidelines among companies in all size groups

<b>2007 Prevalence of Stock Ownership Guidelines</b>					
	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Guidelines only	17%	25%	35%	46%	59%
Shares deferred to retire only	4%	6%	7%	8%	8%
Both	2%	1%	9%	20%	17%
<b>Total</b>	<b>23%</b>	<b>32%</b>	<b>51%</b>	<b>74%</b>	<b>84%</b>

<b>2006 Prevalence of Stock Ownership Guidelines</b>					
	<u>Smaller</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Top 200</u>
Guidelines only	11%	16%	24%	42%	43%
Shares deferred to retire only	2%	4%	6%	6%	9%
Both	0%	1%	3%	8%	29%
<b>Total</b>	<b>12%</b>	<b>22%</b>	<b>33%</b>	<b>56%</b>	<b>81%</b>

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

Prevalence of Perquisites / Benefits

Industry Size	% of Companies Providing / Disclosing Perquisites	Gift Matching / Charitable Gifts	Life/ Health Insurance	Co. Products / Svcs / Discounts	Car-Related	Aircraft or First / Business Class	Other Perquisites / Benefits
Smaller	11.1%	0.9%	4.0%	0.3%	0.3%	0.3%	6.2%
Small	17.5%	3.9%	7.4%	2.3%	0.0%	1.2%	6.6%
Medium	26.0%	9.0%	8.0%	4.0%	0.7%	4.0%	10.3%
Large	39.2%	16.9%	6.9%	6.6%	1.3%	5.0%	18.8%
Top 200	66.5%	37.0%	25.0%	14.5%	5.5%	16.0%	22.0%

***Pearl Meyer & Partners***

**[www.pearlmeyer.com](http://www.pearlmeyer.com)**

**Jannice Koors**

**Managing Director**

**[Jannice.Koors@pearlmeyer.com](mailto:Jannice.Koors@pearlmeyer.com)**

**212-407-9548**

***NACD***

**[www.nacdonline.org](http://www.nacdonline.org)**

**Peter Gleason**

**Managing Director and**

**Chief Financial Officer**

**[Institute@nacdonline.org](mailto:Institute@nacdonline.org)**

**202-775-0509**

# Upcoming Events

Please plan to join us Wednesday, April 23, 2008 for the next program in the NACD's bi-monthly Webcasts on compensation and governance issue:

## **Design by Disclosure: The Unintended Consequences of SEC Proxy Rules**

How expanded proxy reporting requirements are driving key changes in the design of executive compensation programs that in some cases may end up discouraging greater transparency

Also be sure to check our events section at [www.nacdonline.org](http://www.nacdonline.org) for more information on our other scheduled Webcasts for 2008:

Tuesday, June 24<sup>th</sup>

Wednesday, August 13<sup>th</sup>

Tuesday, October 7<sup>th</sup>

Tuesday, December 16<sup>th</sup>



[www.nacdonline.org](http://www.nacdonline.org)

ENGAGED DIRECTORS.  
EFFECTIVE BOARDS.®

An audio archive of this Webcast is available at [www.nacdonline.org](http://www.nacdonline.org) **for NACD members only**, who also may register in advance to receive credit toward a Certificate of Director Education for accessing the program.

More than 1,000 directors and executives have obtained the NACD Certificate designation and maintain it annually through continuing director education. More information about the Certificate of Director Education and the accreditation process is available at [www.nacdonline.org](http://www.nacdonline.org) or by contacting Lindsey Smith at (202) 775-2100 or [lmsmith@nacdonline.org](mailto:lmsmith@nacdonline.org).