

Trends in Director Compensation

Findings from the NACD/PM&P Director Compensation Reports

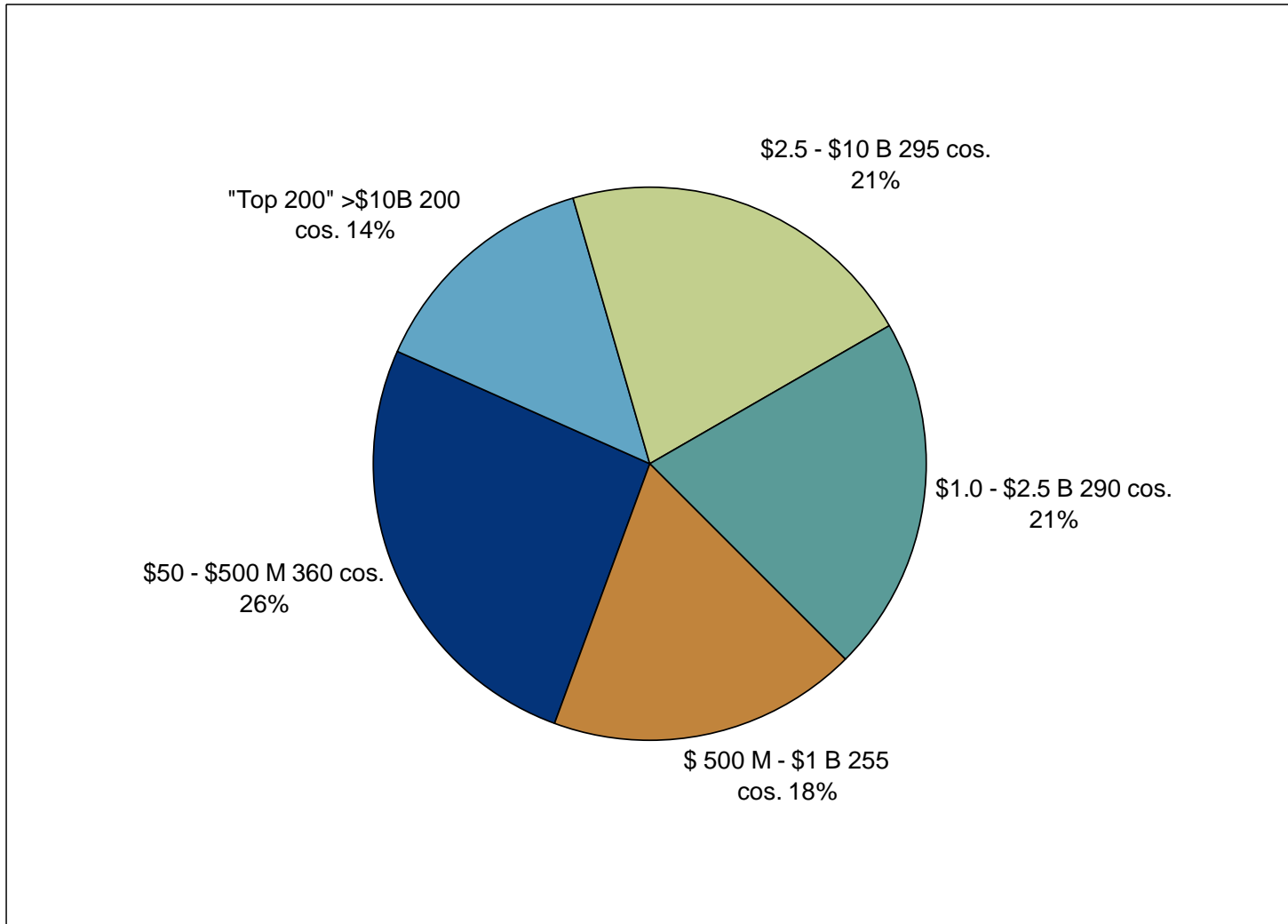
■ What We'll Cover Today

- **Results of NACD Director's Comp Survey.**
 - Pay levels.
 - Structure of pay.
 - Ownership guidelines.

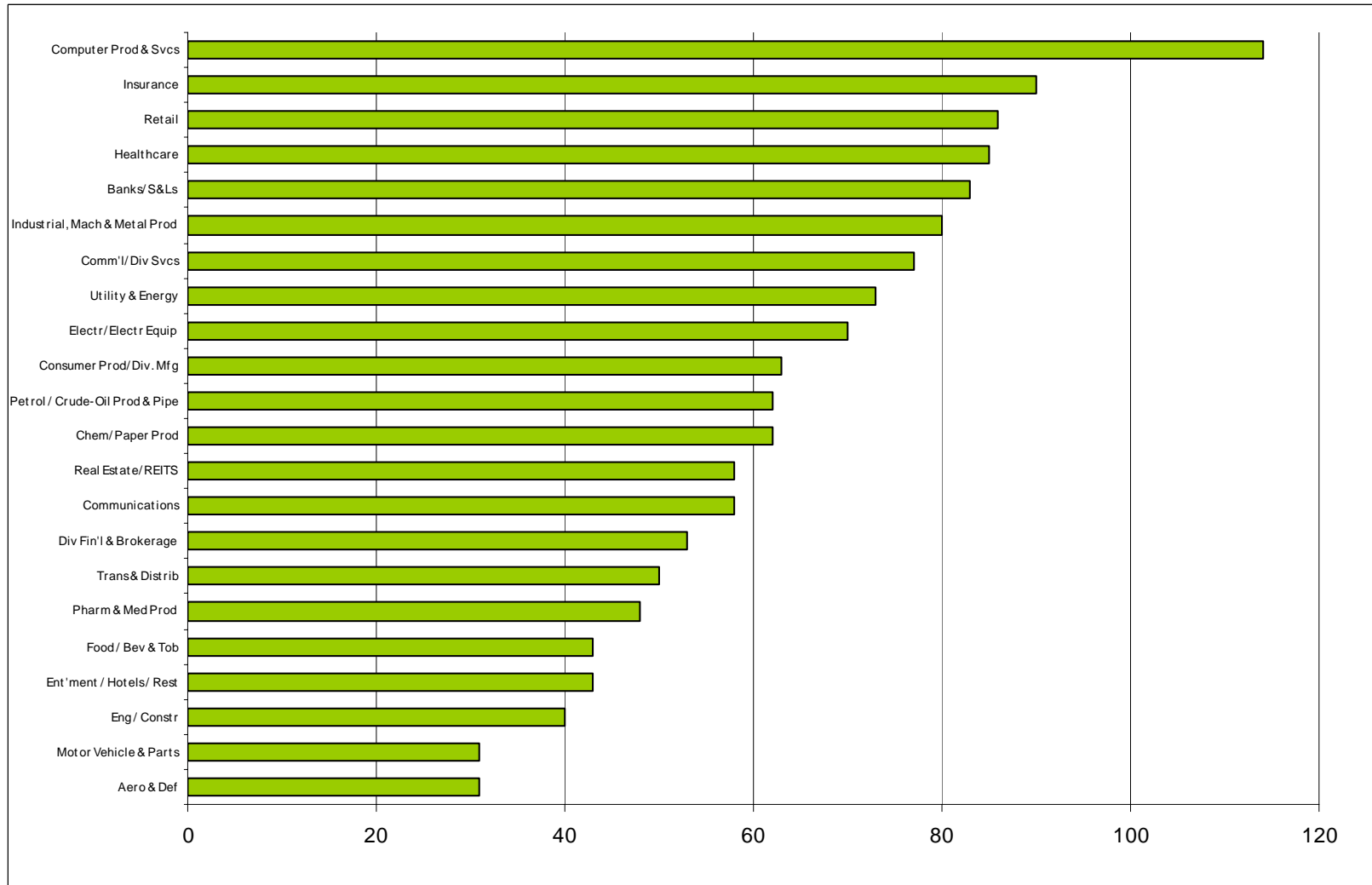
- **What we expect to see this year.**

- **What we expect to see in five years.**

Participation By Revenue



Participation By Industry

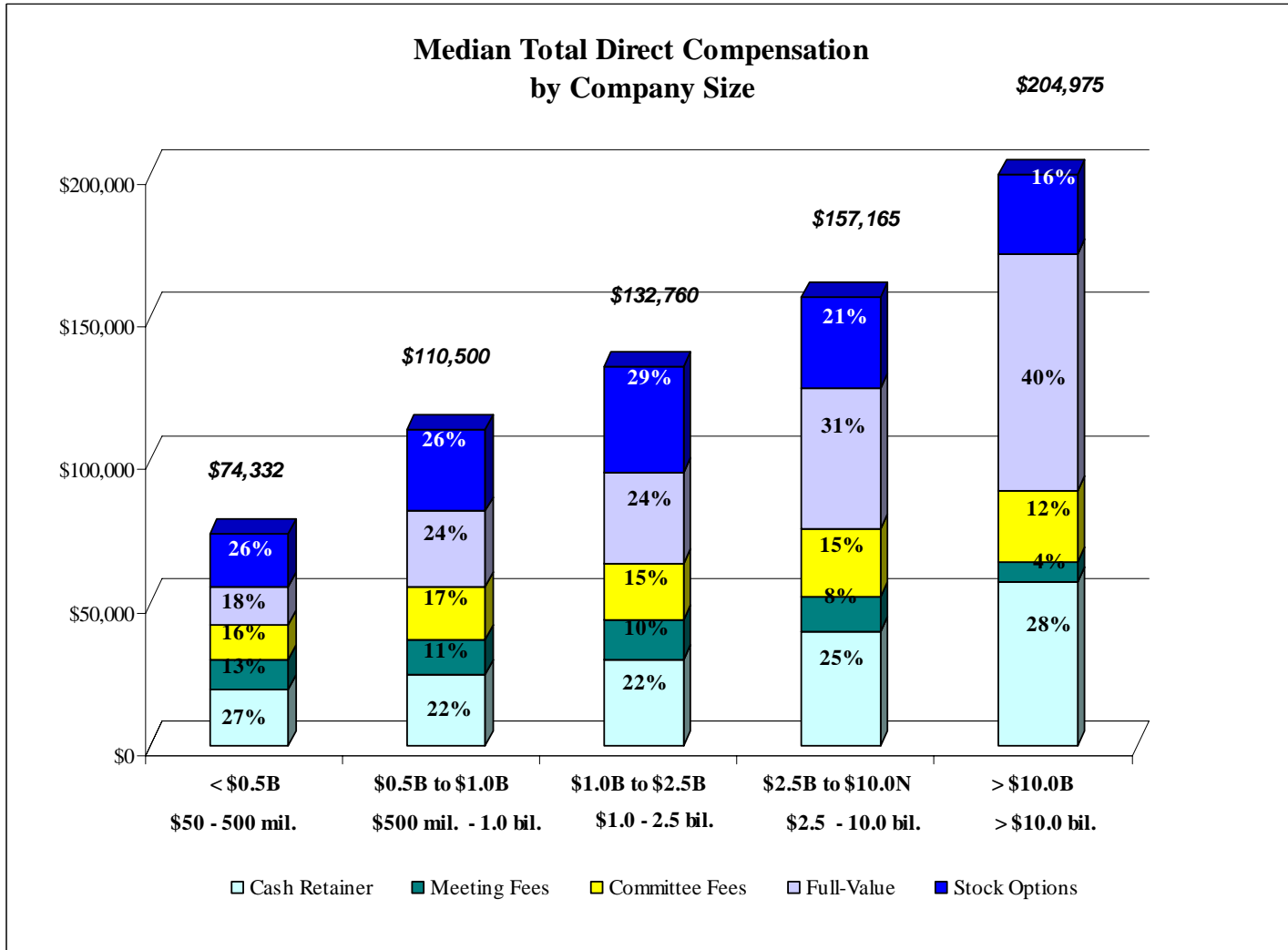


Year-to-Year Change

- Pace of increase in mid-size firms slows
- Large firms continuing increases; smallest firms continue catch-up

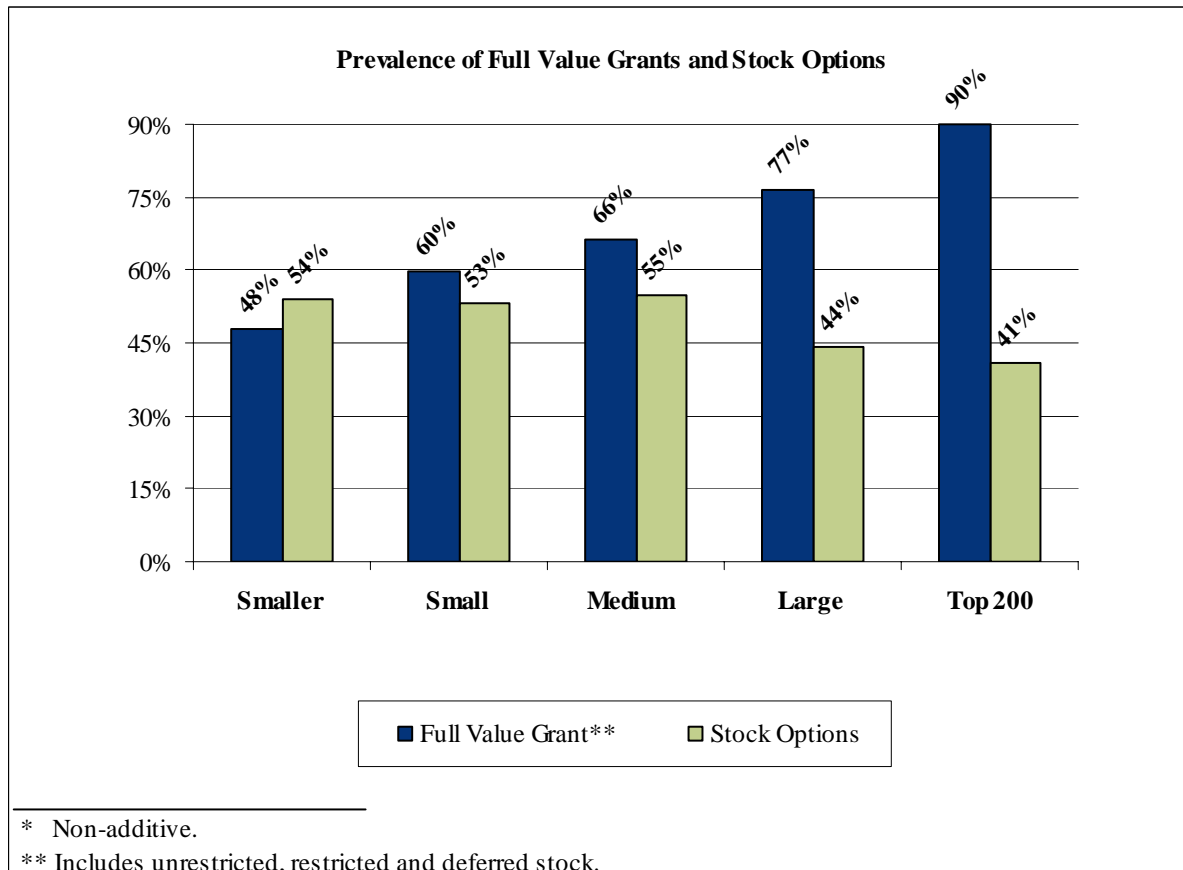
Median Total Direct Compensation and Year-to-Year Comparison by Company Size										
	< \$0.5B		\$0.5B to \$1.0B		\$1.0B to \$2.5B		\$2.5B to \$10.0B		> \$10.0B	
	2006	2006 vs. 2005	2006	2006 vs. 2005	2006	2006 vs. 2005	2006	2006 vs. 2005	2006	2006 vs. 2005
Cash Compensation										
Cash Retainer	\$20,000	0 %	\$25,000	0 %	\$30,000	0 %	\$40,000	0 %	\$57,500	15 %
Board Meeting Fees (b)	10,000	11	12,000	14	12,000	0	12,000	0	14,000	0
Total Committee Fees	12,167	10	18,667	12	20,000	1	23,333	6	25,000	7
Total Cash (c)	\$40,850	7 %	\$55,500	9 %	\$62,458	8 %	\$75,667	8 %	\$91,000	11 %
Stock Compensation										
Stock Options (b)	\$32,162	10 %	\$44,085	2 %	\$65,533	6 %	\$63,456	13 %	\$73,433	0 %
Full-Value Share (b)	29,308	47	40,000	17	49,948	11	60,000	4	90,000	20
Total Stock Award (c)	\$28,908	45 %	\$47,500	5 %	\$67,833	5 %	\$75,000	10 %	\$100,000	4 %
Total Direct Compensation	\$74,332	16 %	\$110,500	7 %	\$132,760	2 %	\$157,165	8 %	\$204,975	12 %

Pay Mix (Median)



Full Value vs. Appreciation-Only Shares

- Larger firms: Greater use of full value shares

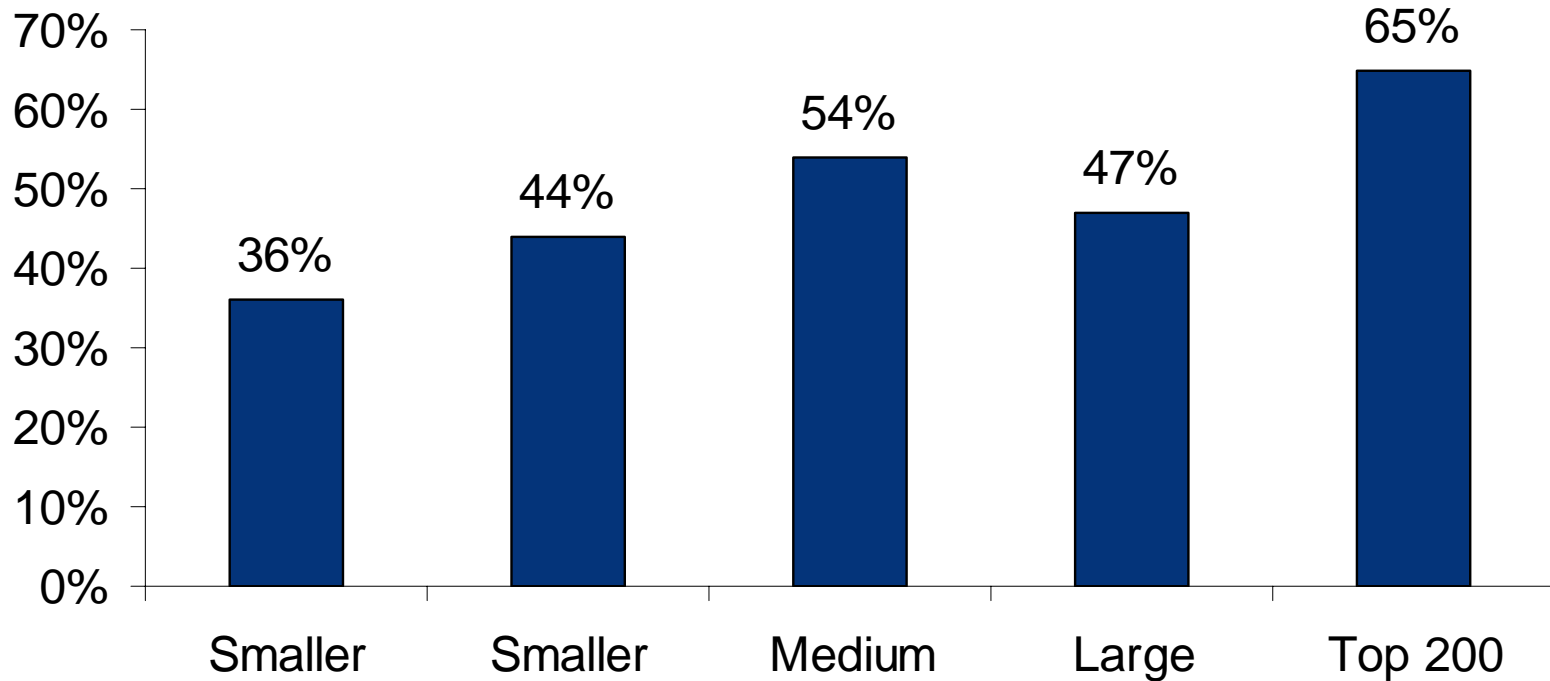


■ Prevalence by Firm Size

- Committee differentiation is now majority practice, all size groups
- Larger firms likely to use full value, less likely to use appreciation-only

2006 Prevalence of Pay Elements by Company Size					
	Smaller	Small	Medium	Large	Top 200
Cash Compensation					
Annual Cash Retainer	93%	95%	97%	97%	99%
Board Meeting Fees	73%	75%	72%	71%	54%
Committee Fees/Retainers	82%	89%	84%	87%	76%
Chair Fees/Retainers	94%	96%	96%	97%	98%
<i>Differentiate Committee Pay</i>	70%	76%	72%	75%	75%
Equity Compensation					
Full-Value Shares					
Unrestricted Stock	20%	20%	24%	36%	27%
Restricted Stock	30%	38%	40%	42%	42%
Deferred to Retire	4%	9%	12%	19%	51%
Total	48%	60%	66%	77%	90%
Stock Options	54%	53%	55%	44%	41%
All Stock Awards	84%	93%	93%	94%	99%

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



Committee Meeting Frequency

- Meetings up consistently (25% to 50%)

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

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

Committee Compensation: Retainers

- Chair retainers differentiated more than member retainers

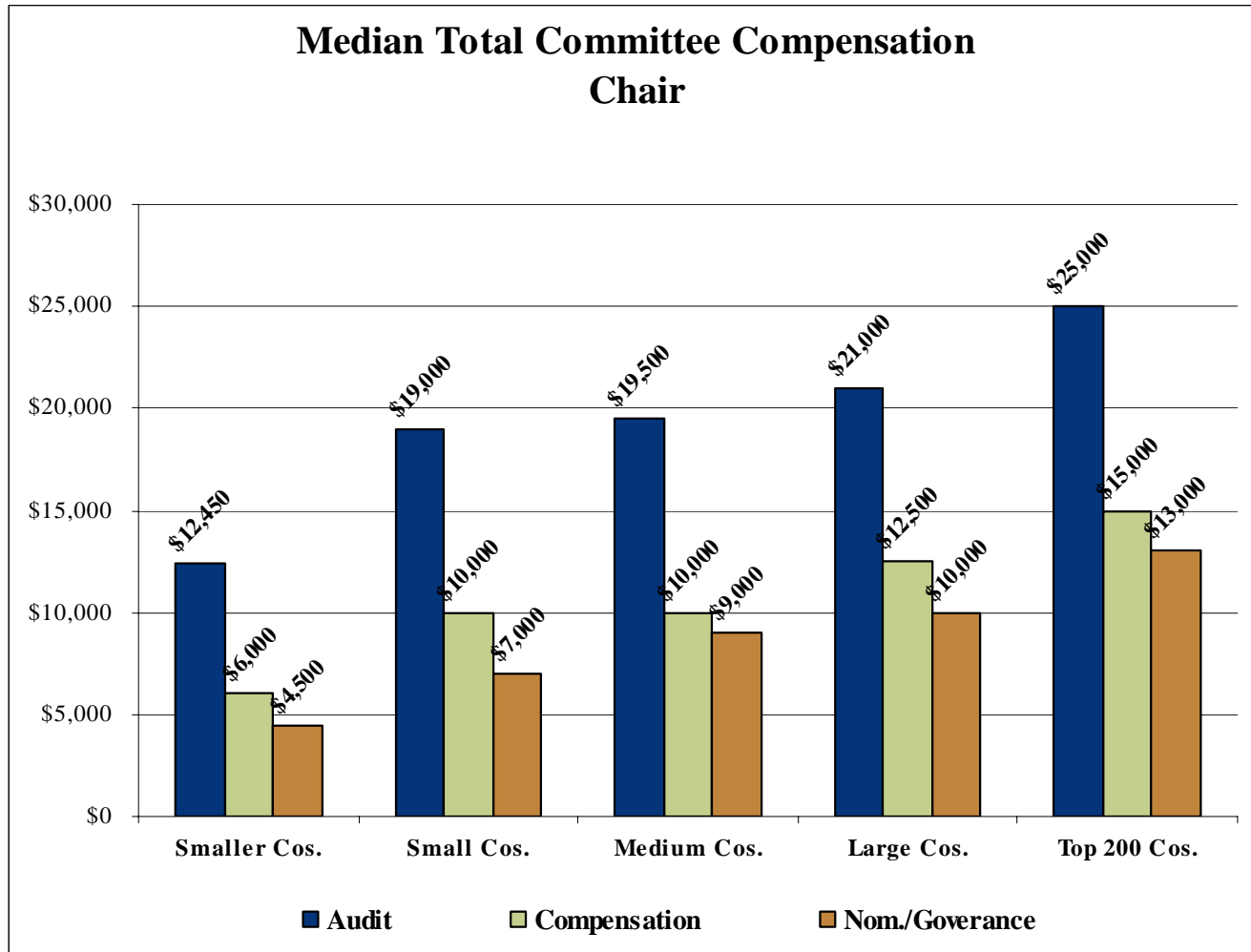
	Median Committee Retainers					
	Chair Retainer			Member Retainer		
	Audit	Comp.	Nom/Gov.	Audit	Comp.	Nom/Gov.
< \$0.5B	\$10,000	\$5,000	\$5,000	\$5,000	\$4,167	\$5,000
\$0.5B to \$1.0B	10,000	5,000	5,000	5,000	5,000	5,000
\$1.0B to \$2.5B	10,000	5,000	5,000	7,500	5,000	5,000
\$2.5B to \$10.0B	10,000	7,500	6,000	6,000	5,000	5,000
>\$10.0B	15,000	10,000	10,000	10,000	6,500	6,500

■ Committee Compensation: Fees

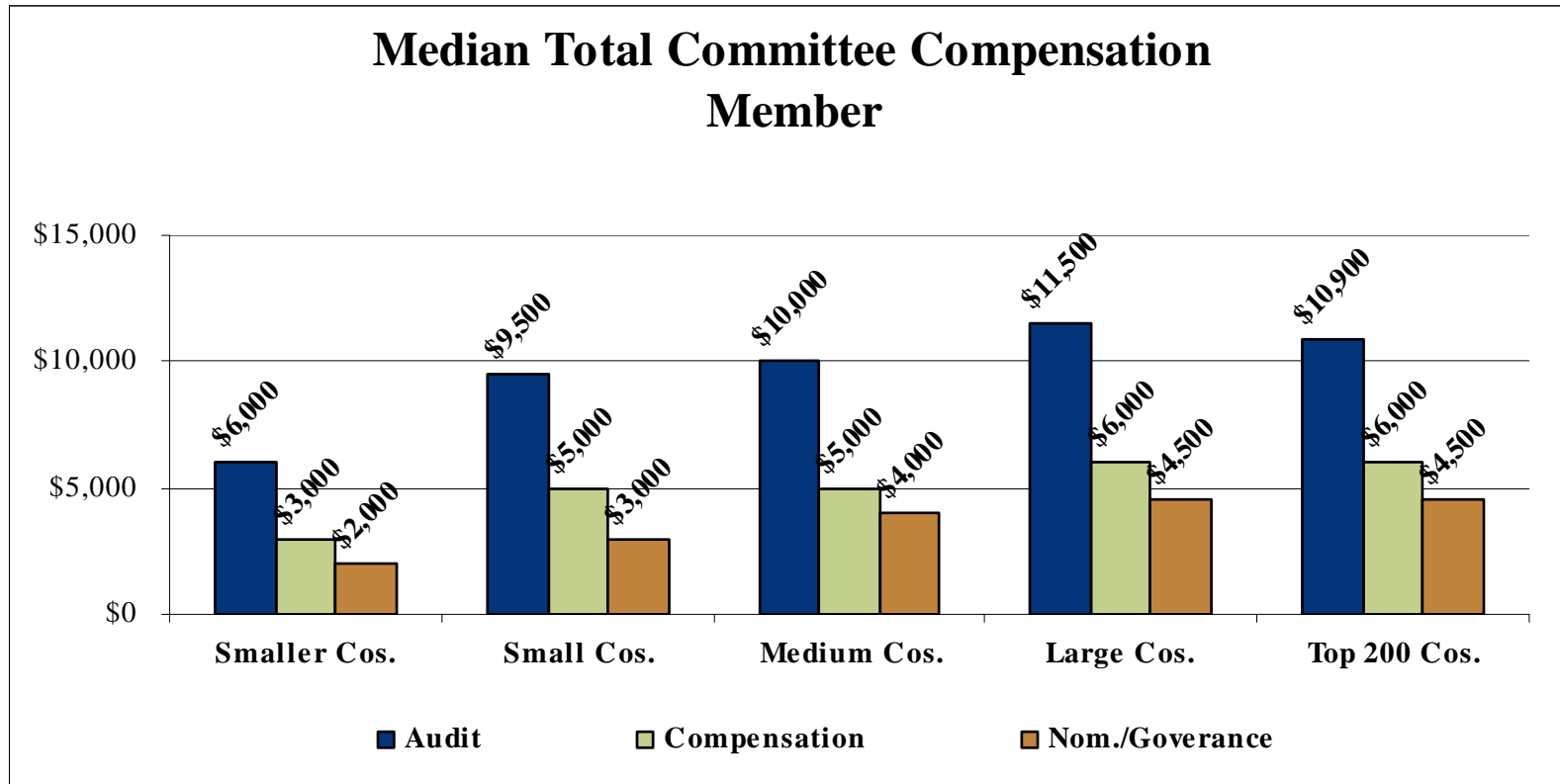
- Committee retainers differentiated more than committee fees

	Median Committee Fees Per Meeting					
	Chair Fees Per Meeting			Member Fees Per Meeting		
	Audit	Comp.	Nom/Gov.	Audit	Comp.	Nom/Gov.
< \$0.5B	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
\$0.5B to \$1.0B	1,500	1,000	1,000	1,200	1,000	1,000
\$1.0B to \$2.5B	1,500	1,500	1,500	1,500	1,250	1,500
\$2.5B to \$10.0B	1,500	1,500	1,500	1,500	1,500	1,500
>\$10.0B	1,500	1,500	1,500	1,500	1,500	1,500

Chair Compensation



Committee Compensation



Ownership Guidelines

- Largest firms lead the way on ownership guidelines

Prevalence of Stock Ownership Guidelines					
	< \$0.5B	\$0.5B to \$1.0B	\$1.0B to \$2.5B	\$2.5B to \$10.0B	> \$10.0B
Guidelines only	11%	16%	24%	42%	43%
Shares deferred to retire only	2%	4%	6%	6%	9%
Both	0%	1%	3%	8%	29%
Total	12%	22%	33%	56%	81%

■ What to Expect in 2007

- **Expect compensation to increase 10% to 12% overall**
 - More (on percentage basis) at smallest firms
- **Audit retainers may grow more slowly**
 - As number of meetings remains flat or declines
- **Compensation is the new Audit Committee**
 - Meetings, compliance responsibilities up substantially in 2007
 - By 2008, compensation pay will approach audit pay
- **Non-exec chair vs. lead director gap should close**
- **Follow the leader**

■ Other things to consider

- **IBM and Coke have created a bipolar situation. Coke added actual performance based compensation for its directors; IBM eliminated options – a form of performance based pay. My bet? Firms will continue to reduce the use of options, and few firms will introduce performance pay for directors.**
- **Many firms continue to denominate equity in terms of the number of shares, rather than value. Not only does this create variability in value and expense, it is in some ways a performance based award – if the stock price goes up, the value received goes up. Absent a hold ‘til retirement rule, this could be viewed as inconsistent with some of the responsibilities of the board.**

■ 5 Years Out

- **Total comp among the top 200 approaching \$400K per year**
 - \$7500 to \$10000 per day for a 40 to 60 day commitment
- **Among the smallest firms, total comp approaching \$150K**
- **Stronger ownership guidelines with a hold to retirement requirement.**
- **Equity denominated in dollars, not shares.**
- **Absent a change in relative emphasis, still a 50% / 50% split, or more emphasis on equity, but all or virtually all full value shares.**
- **Equalization in the compensation by committee**
- **Consider three roles of the board:**
 - Shareholder advocacy / oversight
 - Management advice and counsel
 - Regulatory compliance / governance
- **As the relative importance of these roles emerge, the form of compensation that is appropriate will be determined.**
 - Shareholder : equity
 - Management: a split
 - Compliance: Cash