CAPflash
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2013-14 Director Compensation Analysis: Trends Among Fortune 100

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CAP annually analyzes non-employee director compensation programs among Fortune 100 companies[1]. These firms are viewed as trend-setting organizations. Below is a summary of trends – pay levels and pay practices – based on 2014 proxy filings.

KEY CAP FINDINGS

Board Compensation. LITTLE/NO CHANGE

- **Total Fees**. At median, flat from 2012 to 2013 ($257K vs. $260K)[2]. Only increased four percent since 2011.
- **Retainers**. Pay programs have been simplified, now viewed more as an "advisory fee" than an "attendance fee." In general, companies have moved to a fixed retainer pay structure, with a component in cash and a component in equity.
- **Meeting fees**. Provided by only 15 percent of companies, down slightly from 2012.
- **Equity**. Full-value awards (shares/units) are most common. Only five percent of companies use stock options. 92 percent of companies denominate equity awards (stock or options) as a fixed value, versus a fixed number of shares.
- **Pay Mix**. On average, 56% equity-based vs. 44% cash-based (consistent for past three years). Alignment with long-term shareholders is reinforced by delivering a majority of compensation in equity.

Committee Member Compensation. LITTLE/NO CHANGE

- Less than half of companies paid committee-specific member fees[3].
- At median, committee member compensation is $0[4]. There has been a trend away from committee member fees; value typically rolled into Board cash or equity retainers.

Committee Chair Compensation. LIMITED, BUT NOTABLE CHANGE

- Nearly all companies provided additional compensation to committee Chairs, versus committee members, typically through an additional retainer. The additional compensation recognizes additional time requirements, responsibilities, and reputational risk.
- At median, $20K in additional compensation (vs. members) was provided to Audit and Compensation Committee Chairs, and $15K to Nominating/ Governance Chairs. This is the first year the premium, at median, provided to Compensation Chairs equaled that provided to Audit Chairs.

Independent Board Leader Compensation. LIMITED, BUT NOTABLE CHANGE

- **Non-Exec Chair**. Additional compensation is provided by all companies with this role, $220K at median.
- **Lead Director**. Additional compensation is provided by nearly all companies with this role[5], $28K at median. The differential in pay versus non-executive Chairs is in line with typical differences in responsibilities. Additional compensation was steady, at median, at $25K for the five years prior to 2013.

Perquisites. LITTLE/NO CHANGE

- Overall, limited practice. One-third of companies continue to provide gift matching/charitable contribution.

Pay Limits. NEW TO STUDY

- Due mainly to advancement of litigation in Delaware court related to director compensation, several companies (23%) have adopted shareholder approved director compensation limits ($800K, at median). The limit most often applies only to equity-based compensation.

1 Analysis excludes privately held companies.

2 Total Board Compensation reflects all cash and equity compensation for Board and committee service, excluding compensation for leadership roles such as committee Chair, Lead/Presiding Director, or non-executive Board Chair.

3 Audit, Compensation and/or Nominating and Governance committee members.

4 Reflects all compensation for committee member service (excludes additional fees for leadership roles), across all Board committees.

5 Excludes controlled companies. Also excludes instances where Lead Director role is assumed by Chair of Nominating and Governance Committee, who receives additional compensation for that role.

CAP PERSPECTIVE

Board Pay Levels and Structure

We have hit somewhat of a "steady state" in terms of director pay levels. Over the next few years, we expect modest pay level changes; i.e., low-to-mid single-digit annual increases in Total Board Compensation[6]. among the broader data set. Individual companies typically make pay level changes every two-to-three years; when they do, the changes tend to be larger than those observed annually within the full data set.

In terms of practices, pay programs have continued a trend towards simplification, as director compensation has become viewed more as an "advisory fee" than an "attendance fee." Companies have moved to fixed retainer pay structures, with a component in cash and a component in equity, as opposed to use of per-meeting fees.

Director Pay Limits

A number of companies have recently placed limits on director compensation. The limits are largely due to advancement of litigation in Delaware court. In these cases the issue has been that directors approve their own annual compensation, and the shareholder approved long-term incentive plan did not provide "meaningful limits" on the maximum award that could be granted to a director.

When seeking shareholder approval for amendment to an omnibus long-term incentive plan or director compensation plan, 23 percent of companies studied have included value- or share-based limits (13% and 10%, respectively) for non-employee director compensation. These limits range from $250K to $2 million, $800K at median, and typically apply to just equity-based compensation. Some companies have applied the limits to both cash and equity-based compensation while others have excluded initial at-election equity awards, committee Chair pay, and/or additional pay for Board leadership roles from the limit.

We expect prevalence of director pay limits to increase, becoming majority practice within the next three to four years.

Lead Director Compensation

The Lead Director role has evolved, oftentimes a more active role than three to five years ago. As a result, companies are looking at time commitment and responsibilities, and structuring compensation to appropriately reflect the current role and expectations. Boards are engaging in more outreach and meeting with shareholders to talk about governance practices, CEO succession and executive compensation, among other issues, and many investors want to hear from the Lead Director.

Prevalence of providing additional compensation for the Lead Director role has increased over the past five years. Currently, additional compensation is provided by nearly all companies studied with a Lead Director[7].

Despite the increased activity of Lead Directors, additional compensation provided for the role continues to be quite different than non-executive Chairs. At median, $28K was provided for the Lead Director role, versus $220K for the non-executive Chair role. In terms of additional compensation, for Lead Directors the pay ranges from $25K to $35K and for non-executive Chairs it ranges from $143 to $260 at 25th and 75th percentiles, respectively. The differential in pay is in line with typical differences in responsibilities. Previously, additional compensation for Lead Directors was steady, at median, at $25K for the last five years. Still, differences exist, somewhat, in role/responsibilities across companies which can impact the level of premium compensation provided for the Lead director role.

Making the decision to provide additional compensation to the Lead Director can send a signal to investors regarding expectations for the role, including time commitment, responsibilities, and authority. Many times, companies have been able to settle (or argue against) shareholder proposals to split the CEO and Chairman roles by instituting (or emphasizing) a strong Lead Director and delineating the specific responsibilities of the position. Boards can also reassure investors concerned about overall governance practices at a company by increasing the Lead Director role/responsibilities. Stock Ownership Guidelines Based on our research, 83% of companies have formal stock ownership requirements. Approximately half of companies studied required directors to defer recognition of equity pay until retirement. The median value of required stock ownership level was $450K.

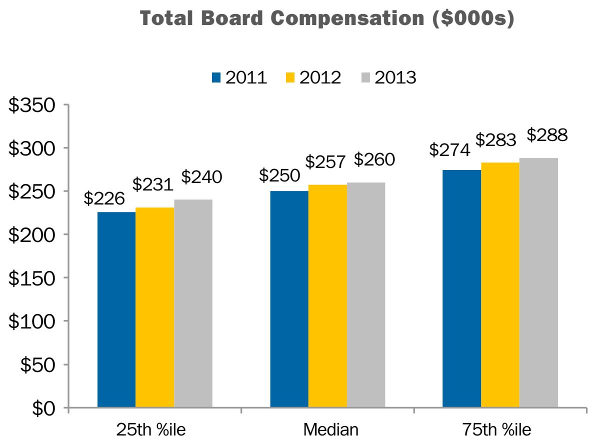
DETAILED FINDINGS

Total Board Compensation

At median, 2013 non-employee director compensation was $260K, generally consistent with 2012.

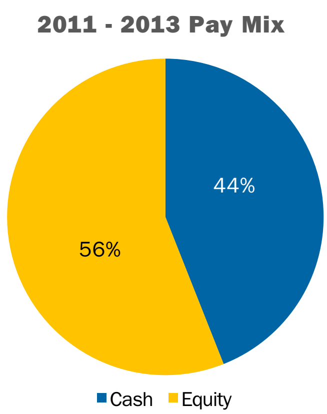
6 **Total Board Compensation** reflects all cash and equity compensation for Board and committee service, excluding compensation for leadership roles such as committee Chair, Lead/Presiding Director, or non-executive Board Chair.

7 Excludes controlled companies. Also excludes instances where Lead Director role is assumed by Chair of Nominating and Governance Committee, who receives compensation for the role.



Pay Mix

The mix of cash and equity paid to outside directors has remained the same for the last 3 years. On average, 56 percent of compensation was equity-based, and 44 percent was cash-based.



Equity Compensation

Full-value equity awards (stock/units) are the most common form of stock-based compensation. Only five percent of companies used stock options in 2013.

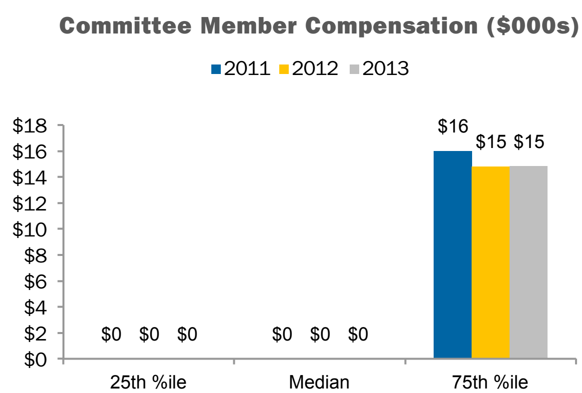
VEHICLE	2013	2012	2011
FULL-VALUE EQUITY	95%	93%	93%
STOCK OPTIONS	2%	2%	5%
BOTH	3%	5%	2%

Equity awards denominated as a fixed value, as opposed to awards based on a fixed number of shares, continue to increase in prevalence. In 2013, 92 percent of companies denominated equity awards – stock and/ or options – based on a fixed value.

AWARD TYPE	2013	2012	2011
FIXED VALUE	88%	82%	84%
FIXED SHARES	8%	11%	15%
BOTH	4%	7%	1%

Committee Compensation

In 2013, just under half of companies studied paid fees specific to committee members (Audit - 48%, Compensation - 35%, and Nominating/Governance - 32%). Given this, at median, committee member compensation was $0. Among companies that do pay separate fees for committee member service, median compensation during 2013 was $15K.



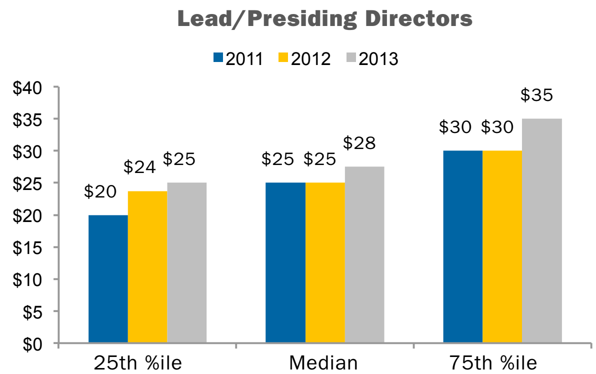
During 2013, additional compensation (premium vs. member) was provided to 96 percent of Audit Committee Chairs, 90% of Compensation Committee Chairs, and 89% of Nominating/Governance Committee Chairs.

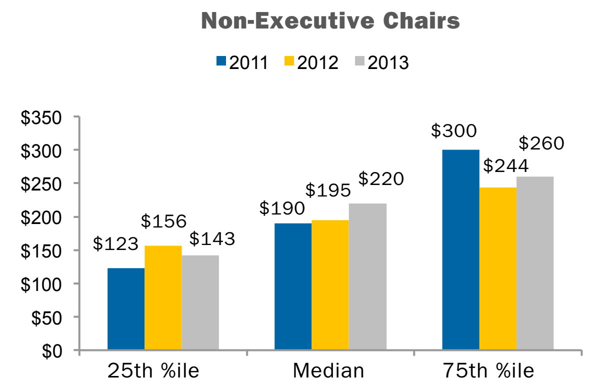
Unlike prior years, during 2013 the additional compensation provided to Audit Committee Chairs, at median, was equal to that provided to Compensation Committee Chairs ($20K). The premium provided to Chairs of Nominating/Governance Committees, at median, was lower ($15K).

Lead/Presiding Directors and Non-Executive Board Chairs

Additional compensation is typically provided to Lead/ Presiding Directors and non-Executive Board Chairs.

During 2013, median additional pay provided to Lead Directors and non-executive Chairs increased to $28K and $220K, respectively. Previously, median compensation provided to Lead Directors had been flat for five years.





Best in Class Director Compensation Process & Practices

BEST IN CLASS DIRECTOR COMPENSATION PROCESS	• Establish pay levels and structure with consideration given to market data, trends and outlook • Define target market positioning for total pay ▪ Generally, target should align with the executive compensation philosophy ▪ "Market" should reflect the peer group used for executive compensation benchmarking and/or size-appropriate general industry data ▪ Disclose the philosophy and rationale for the program • Use compensation as a tool to reinforce alignment of the interests of non-employee directors and long-term shareholders
BEST IN CLASS DIRECTOR COMPENSATION PRACTICES	• Align pay levels with organization size and complexity, considering organization-specific time commitments and responsibilities • Review director pay programs focusing on aggregate pay (Total Board Compensation), with consideration given to the ratio of cash compensation to equity compensation and additional pay for Board leadership roles • The pay program should be viewed as a "advisory fee" vs. an "attendance fee" • Structure pay so that equity represents at least half of the total • Establish meaningful equity ownership requirements • Eliminate benefit and/or perquisite programs unless a strong business case exists