
Director Compensation Continues Steady Climb

An analysis of board member fees at Fortune 500 companies

While executive pay continues to fill the headlines, board compensation has received increased scrutiny over the past few months. Some recent news reports have focused the spotlight on directors, such as The New York Times article "Executives Got the Pay, but the Directors Gave It," which was published alongside Equilar's annual CEO pay study in April.

In this environment, many companies are struggling to set director pay. Given current economic conditions and company performance, it can be difficult to justify increases in board compensation. At the same time, directors are faced with even greater workload, responsibility, and liability as they fight to keep their companies afloat. Director retention and recruitment may become a major issue in 2009.

For this newsletter, Equilar conducted a study of compensation for non-employee directors in the Fortune 500 index. The study compares board-level compensation over the last two years for 300 companies whose most recent fiscal year ended on or after June 30, 2008.

Total Compensation

From 2007 to 2008, median board-level compensation for non-employee directors at Fortune 500 companies increased by 4.7 percent. In 2008, median board-level compensation reached \$182,102, up from \$173,876 in 2007. But in comparison to prior years, the rate at which board fees are growing has slowed. A comparable analysis last year found that director compensation grew 7.2 percent from 2006 to 2007.

Board-level compensation includes annual cash retainers, annual equity awards, and board meeting fees. For this analysis, fees paid for additional responsibilities such as committee service or chairmanship are excluded. The analysis also excludes initial equity grants awarded to new directors.

The three primary components of board-level compensation include the following:

- **Cash Retainers**

The median value of board member retainers paid in cash rose by 6.7 percent from \$60,000 in 2007 to \$64,000 in 2008. The number of companies with no cash retainers continued to shrink, with only 3.7 percent of companies awarding no cash retainers in 2008.

- **Equity Awards**

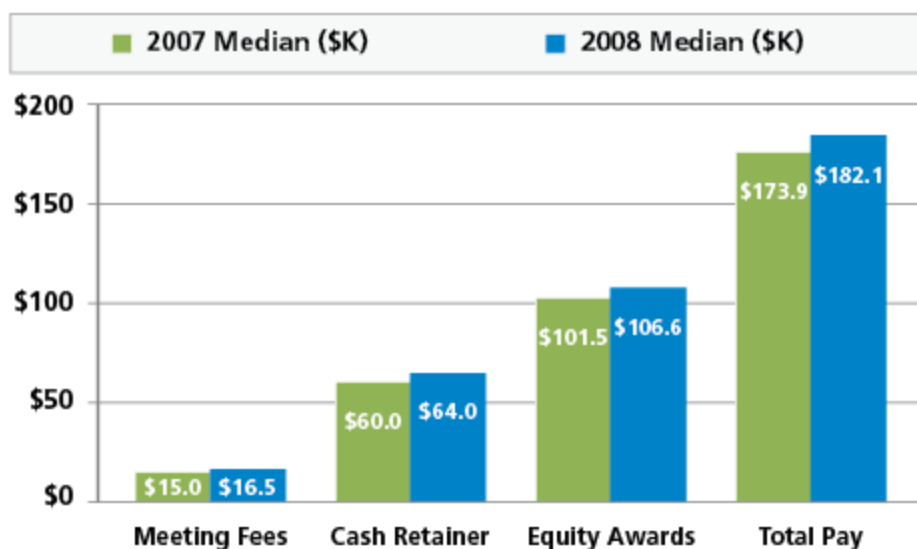
From 2007 to 2008, the median value of annual equity grants for directors rose by 5.0 percent, from \$101,529 in 2007 to \$106,601 in 2008. Equity awards also became nearly as prevalent as cash retainers in 2008, with 96.0 percent of Fortune 500 companies providing some form of annual equity award.

- **Board Meeting Fees**

Among companies with meeting fees, the median value of aggregate board meeting fees for the year was \$16,500 in 2008. Though this represents a 10.0 percent increase in median value over 2007, the prevalence of companies awarding meeting fees continued to fall. In 2008, only 44.3 percent of companies paid board meeting fees, down from 50.0 percent in 2007. Aggregate board meeting fees

are calculated by multiplying the meeting fee by the disclosed number of board meetings.

The following chart illustrates the median value of key elements of Fortune 500 non-employee director compensation in 2007 and 2008:



Equity Compensation

The median value of annual equity awards granted to non-employee directors rose to \$106,601 in 2008. As noted above, this represents a 5.0 percent increase over the 2007 median of \$101,529. This total includes the value of stock options, restricted stock, and/or units awarded for the year.

- **Stock Options**

The median value of annual option awards was the only component of board member compensation to fall from 2007 to 2008. In 2008, the median value was \$73,333, down 0.4 percent from a median of \$73,614 in 2007. In addition, the prevalence of companies awarding director stock options continued to drop, down to 27.3 percent of the Fortune 500 in 2008 from 30.0 percent in 2007.

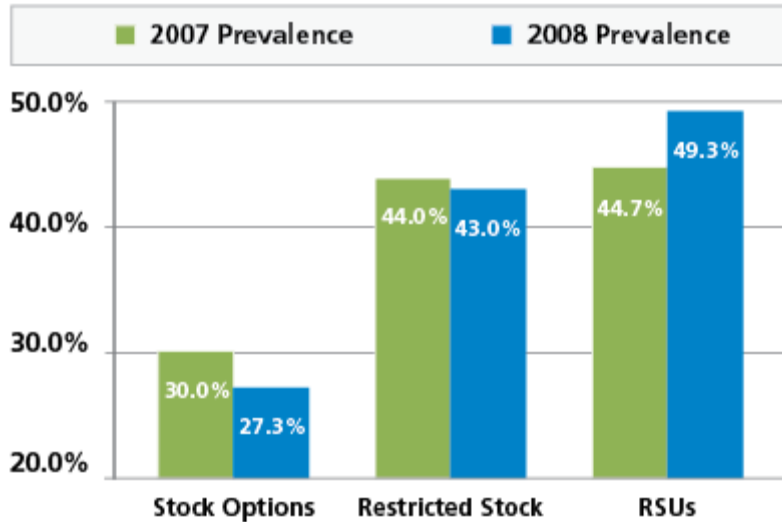
- **Restricted Stock**

From 2007 to 2008, the median value of restricted stock awards grew by 10.5 percent, climbing from \$90,000 in 2007 to \$99,460 in 2008. However, the prevalence of restricted stock awards declined slightly, from 44.0 percent in 2007 to 43.0 percent in 2008.

- **Restricted Stock Units**

Restricted stock units grew in both value and popularity in 2008. From 2007 to 2008, the median value of unit awards grew by 11.0 percent, jumping from \$90,063 in 2007 to \$100,000 in 2008. Nearly half of the Fortune 500 (49.3 percent) chose to award directors restricted stock units in 2008. This represents significant growth from 2007, when 44.7 percent used restricted stock units.

The chart below shows the prevalence of equity vehicles in 2007 and 2008 for the Fortune 500, illustrating how companies moved from options and stock to units:

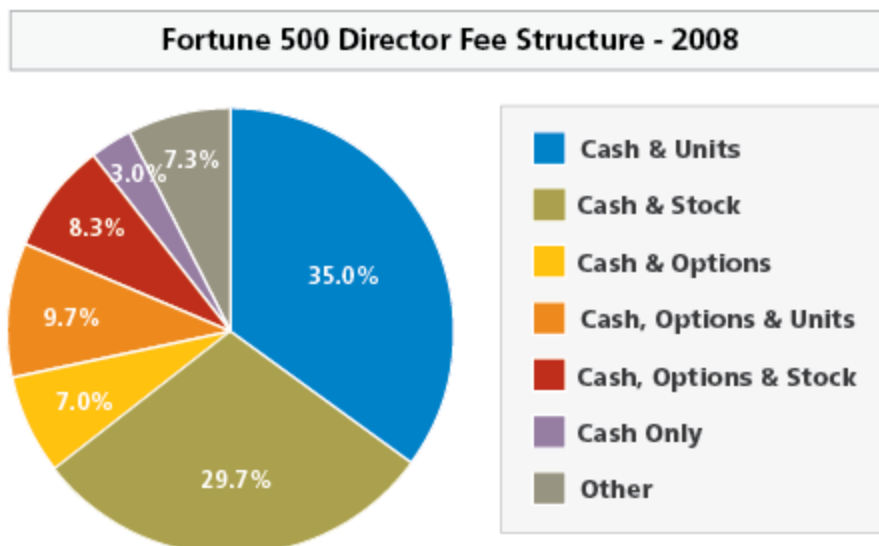


Composition of Board Member Pay

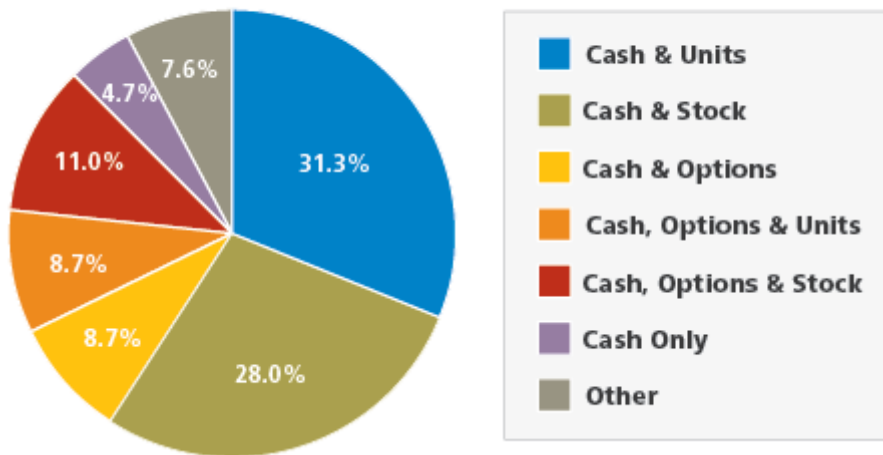
As can be seen in the prevalence figures above, the mix of pay for board members shifted toward restricted stock units in 2008. In addition, more boards utilized only a single equity vehicle in 2008 than in prior years. In 2008, 73.7 percent of Fortune 500 companies used a single equity vehicle, up from 69.7 percent in 2007. In addition, the prevalence of companies with two equity vehicles fell from 24.0 percent in 2007 to 21.0 percent in 2008.

Equilar categorized the components of board compensation into various combinations of cash, option, stock, and unit awards. Our analysis, displayed in the pie chart below, indicates a trend toward a single equity vehicle used in conjunction with a cash retainer. In 2008, 71.7 percent of the Fortune 500 had this design, compared with 68.0 percent in 2007. The most popular pay mix was a cash retainer plus an award of restricted stock units, which 35.0 percent of companies used in 2008, up from 31.3 percent in 2007.

The charts below display the prevalence of various pay mix combinations for Fortune 500 companies in 2008 and 2007:



Fortune 500 Director Fee Structure - 2007



Follow-Up

Data for this analysis was collected using Equilar's **BoardInsight** database. To learn more about this product or Equilar's custom research services, please contact Equilar by phone at (877) 441-6090 or by email at info@equilar.com.

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