Steven Hall & Partners
Executive Compensation

2006

Redesigned Pay for Redefined Responsibilities

Board Remuneration Study

In this new era of growing oversight, increased accountability, greater demands and potential personal liability issues, **adequate and appropriate remuneration for Board service is critical.** In addition, the pool of qualified candidates is diminishing further due to recent restrictions on multiple Board service being imposed by corporations on their outside Directors as well as their executives.

Well-designed Board remuneration programs are required to align the interests of shareholders and Directors, attract and retain highly qualified Directors, provide appropriate compensation for their time, commitment, efforts and contributions to the corporate estate, and meet best standards of corporate governance.

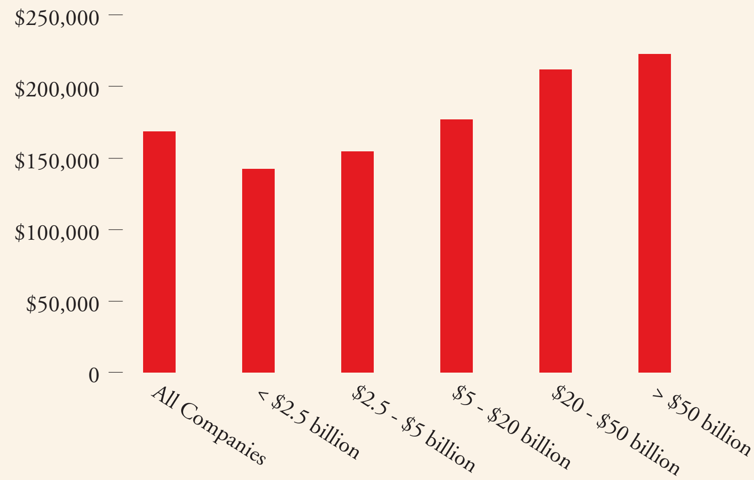
The recently completed Steven Hall & Partners survey provides valuable insight into these issues, empowering Directors and others to make informed, data-driven decisions. The study examines Board pay at over 850 companies in the Fortune 1,000 companies. While the full study is scheduled for release in several weeks, an advanced preview of major findings follows.

Rising Total Remuneration* Levels

Ever-increasing demands on Directors are propelling total remuneration to an all-time high. Median compensation at the 500 largest U.S. companies in the study has grown 14% to $185,000 from $162,363 since last year for the average Director. Higher cash retainers for Board service (up 11%) and Committee Chairs (up 25% to 80% depending on the Committee) contributed to the increase.

The study confirms that company size remains a major driver of Board pay. Median total remuneration for the average Board member ranges from $142,112 for Directors at companies with revenues of less than $2.5 billion to $224,414 at companies with revenues greater than $50 billion, a difference of 58%. Interestingly, Board remuneration is increasing at a faster rate (19%) among smaller revenue companies than among those in the top half of the survey group (14%), as smaller companies seek to catch-up and ameliorate competitive recruitment pressures.

Director Median Total Remuneration by Revenue Size



Redesign of the Board Pay Package

Redefinition of the Director role has been accompanied by a redesign of Board pay.

Remuneration of Committee Chairs

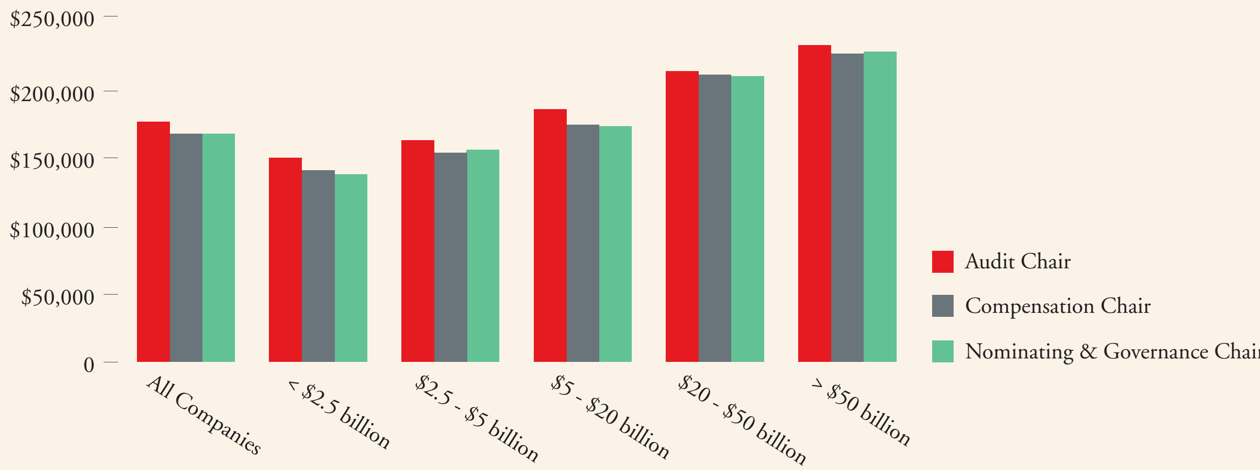
The Committee has become the workhorse of the Board with Committee Chairs assuming leadership roles in corporate affairs. Median Committee Chair retainers increased dramatically over last year among the Top 500 companies. Compensation Committee Chairs received the most dramatic retainer raise, 80%, reflecting a nearly doubled retainer; in addition, Compensation Committee meetings increased by 20% – both attributable to greater accountability and public scrutiny of executive pay coupled with the advent of new SEC disclosure rules.

In addition, Governance & Nominating Committee Chair retainers grew 50%, and Audit Committee Chair retainers were up 40% from prior year levels. As expected, Audit Chairs remain the highest paid members of the Board, with Compensation and Nominating & Governance Committee Chairs earning slightly less on average.

With respect to total remuneration at the Top 500 companies, Audit Committee Chairs increased at the median by 17% to $194,723, while total pay for Compensation and Nominating & Governance Committee Chairs increased by 14% to $185,000 and $184,275 respectively.

*Total remuneration includes cash retainers and equity grants as well as meeting fees for both Board and Committee service.

Committee Chair Median Total Remuneration by Revenue Size



Shift to Full-Value Stock Awards

The traditional Board equity vehicle over the years has been the stock option. While the use of equity for Directors is still almost universal (95%), there has been a major shift in the design of Board equity compensation in response to a new consensus regarding best practice with regard to Board alignment with shareholder interests, converting the Director from optionee to owner. Only about half of companies studied (50%) award options, as compared to 72% awarding full-value shares.

With respect to value, the grants are almost equivalent. At companies awarding full-value shares, the median grant is $66,054, whereas at companies awarding options, the median grant is valued at $69,886.

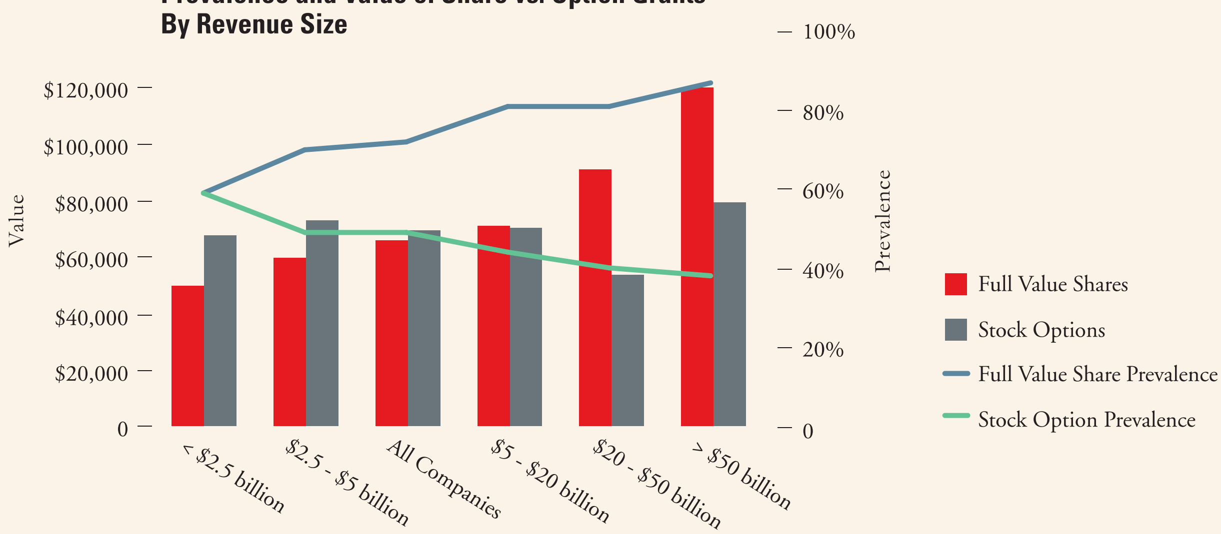
With 27% of companies in the study using both shares and options, the overall median equity award for all companies in the study is $87,375.

The table below details the prevalence and value of share and option grants by company revenues.

Retreat from Meeting Fees

Pay for Board Meetings — While payment of fees for attendance at Board meetings was universal in the past, 34% of companies surveyed have abandoned meeting fees.

Prevalence and Value of Share vs. Option Grants By Revenue Size



It is interesting to note that cash and equity retainers are 38% greater at companies that do not use meeting fees than those that pay Board meeting fees. Among such companies, the median board meeting fee is $1,500.

As a result, median total remuneration is $181,385 among companies that have abandoned Board meeting fees as compared to $163,350 at companies that pay Board meeting fees, a difference of 11%.

Pay for Committee Meetings — Only two-thirds of the companies in the study pay Committee meeting fees, averaging about $1,500. Sixteen percent pay fees that differ based on Committee.

Board Demographics

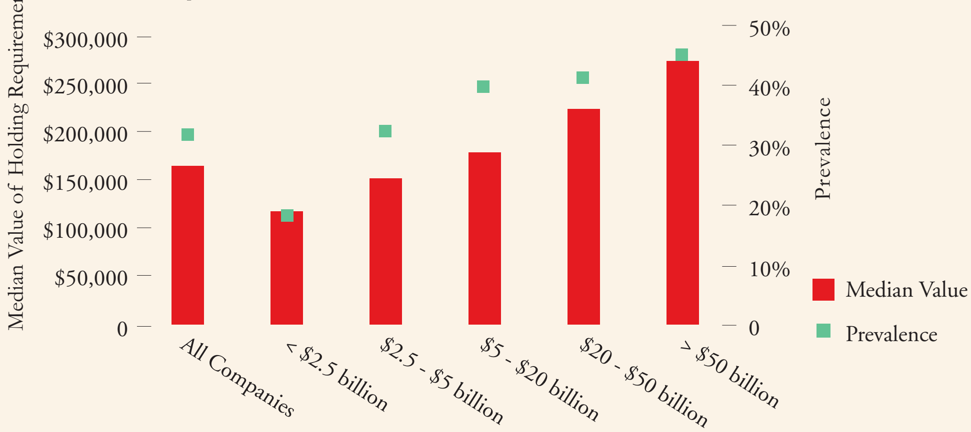
The typical Board meets seven times annually and is comprised of 10 Directors, eight of whom are independent.

The typical Director is elected for a three-year term and is retired at age 72 by the 44% of survey companies that report mandatory retirement. Forty percent of companies recently surveyed in a joint study by Heidrick & Struggles and the University of Southern California report limiting the number of Boards on which their outside Directors may serve. According to the study, directors serve on 1.6 boards.

Ownership Guidelines

Nearly one-third (32%) of companies disclose requiring Directors to meet a minimum share ownership guideline. Most companies, 83%, define the ownership requirement as a multiple of annual retainer, while the remainder simply require that Directors own shares with a value equal to a pre-defined minimum or a minimum number of shares. The median value of the ownership requirement is $165,000, or four times the retainer. Also, Directors are typically given five years to attain this threshold holding.

Prevalence and Median Value of Share Ownership Guidelines by Revenue Size



Final Report

When issued, the study's final report will cover trends relating to Lead / Presiding Director pay, non-executive Chair pay, performance-based pay for Directors, as well as other related compensation and governance issues.

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