2015-2016 Director Compensation Report

EXECUTIVE SUMMARY

The issue of director pay sat on the back burner for years, but increased public scrutiny has brought the issue to the forefront. The litigation landscape has been active over the past two years in regard to director pay that is viewed as excessive, with lawsuits focused primarily on pay approval processes, and application of fairness standards and the business judgement rule. Boards can be left wondering how to develop effective director pay practices and where to find appropriate benchmarking data.

The Challenge Today:

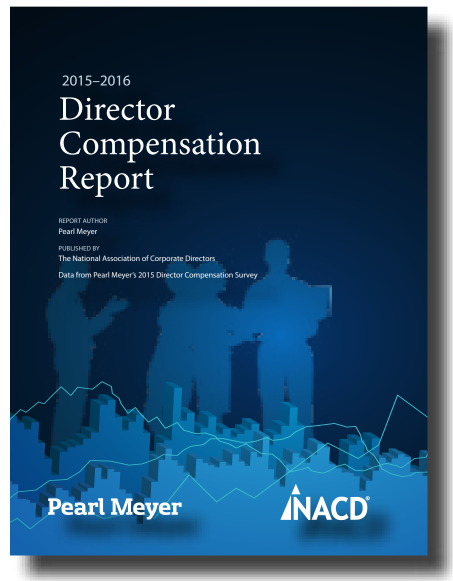
The *2015-2016 Director Compensation Report* offers practical and relevant reviews of compensation-related lawsuits including:

- Calma vs. Templeton et al., in which shareholders sued software company Citrix Systems, alleging that in decisions about director pay, just five of the 14 companies cited as peers were actually peers.
- Binning v. Ogunlesi, in which shareholders sued Goldman Sachs, saying that company's board needed to prove the entire fairness of their compensation because they did not seek shareholder approval of limits on director compensation.
- Espinoza v. Zuckerberg, in which shareholders called into question Facebook founder and controlling stockholder Mark Zuckerberg's ability to solely ratify director compensation without formally holding a vote at a shareholder meeting or by receiving written consent from shareholders.

What Should Boards Do?

Directors should use the report to help determine director pay relative to peer companies while taking into consideration the Five Principles for Non-Employee Director Compensation:[1]

1. Director compensation should be determined by the board and disclosed completely to shareholders.
2. Director compensation should be aligned with the long-term interest of shareholders.
3. Compensation should be used to motivate director behavior.
4. Directors should be adequately compensated for their time and effort.



The full publication is available exclusively to NACD members. To become a member, please contact Brandan Nass at Join@NACDonline.org.

To learn more about NACD, visit NACDonline.org.

5. Director compensation should be approached on an overall basis rather than as an array of separate elements.

The Report Offers Directors:

Findings on overall director compensation:

- Across American companies of varying sizes, modest growth in director compensation has become the norm, with most companies seeing between 1 percent and 3 percent director pay increases.
- Micro-cap companies, however, averaged a steeper director compensation increase of 9 percent.

Findings on committee chair compensation:

- Across company types, audit committee chairs received the high¬est level of compensation for committee participation—a median level of $20,000 beyond their regular board pay.
- Pay for serving as compensation committee chair reached a median of $15,000, and pay for serving as governance committee chairs came in at a median of $10,000.

[1] NACD, *Report of the NACD Blue Ribbon Commission on Director Compensation*, (Washington, DC: NACD, 2006), pp. 15-16.

