

THE BDO 600

2014 Survey of Board Compensation Practices of
600 Mid-Market Public Companies



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▶ INTRODUCTION

About the BDO 600 Survey

The BDO 600 survey details director compensation practices of publicly traded companies in the energy, financial services—banking, financial services—nonbanking, healthcare, manufacturing, real estate, retail, and technology industries. Companies in the six non-financial service industries have annual revenues between \$25 million and \$1 billion. Companies in the two financial services industries have assets between \$50 million and \$2 billion. All data in our survey was extracted from proxy statements that were filed between May 15, 2013 and May 15, 2014.

The BDO 600 survey is the eighth iteration of our annual publication.

Our survey is unique because it focuses on mid-market companies; most board compensation surveys focus on much larger companies.

About BDO's Global Employer Services Practice

BDO's Global Employer Services practice offers an experienced and dedicated team of professionals who operate nationwide to seamlessly provide a comprehensive array of services to address client needs.

Our team provides tax, accounting, and consulting services for all types of compensation arrangements, including cash and equity incentives, merger and acquisition related issues, employee stock purchase plans, qualified and nonqualified plan arrangements and other related services.

We serve a broad base of clients from mid-sized domestic companies to Fortune 500 multinationals.

12%

In fiscal year 2013, director compensation increased by an average of 12%

45%

Overall, companies pay 45% (47% last year) of director compensation in cash and 55% in equity (53% last year)

► HOW TO USE THIS SURVEY

The data we collected from the 600 companies surveyed represents the policy in effect at each company as of their fiscal year-end, as disclosed in the director compensation narrative in public filings. We analyzed the data in aggregate by the standard four components of compensation: board retainers and fees, committee retainers and fees, stock options and full-value stock awards.

Types of Compensation

- **"Board Retainers and Fees"** are comprised of the annual board retainer and total board meeting fees earned during the year. Total meeting fees are calculated by multiplying the in-person per-meeting fee by the total number of board meetings held during the year.
- **"Committee Retainers and Fees"** are comprised of the annual committee retainer and total committee meeting fees earned during the year. Total meeting fees are calculated by multiplying the in-person per-meeting fee by the total number of committee meetings held during the year. The data shown reflects the assumption that the director serves as a member of two committees; fees for serving on the compensation committee and the nominating and governance committee were used in this analysis.
- **"Stock Options"** values are the grant date fair value awards as reported by each company. If a company did not report these values, the values were calculated using the FAS123R assumptions as reported by the company. Irregular grants have been annualized but one-time grants have been excluded.
- **"Full-value Stock Awards"** data includes both stock and stock unit awards. The grant date fair value of the awards was used in this analysis. Irregular grants have been annualized, but one-time grants have been excluded.
- **"Total Compensation"** represents the sum of board retainers and fees, committee retainers and fees, full-value stock awards, and stock options for each company.

Data Arrangement

The survey data is organized by company size and industry. Board compensation practices can be benchmarked by either of these groups to gain different perspectives on board compensation practices. The groups are described in more detail on the following pages.

Our survey focuses on mid-market companies.



Company Size

Because of the well-established direct correlation between company size and director/executive compensation, the most traditional form of director and executive compensation benchmarking uses annual revenue as the primary scope factor.

Our survey reports compensation provided at companies in the following revenue ranges:

- **\$25 million – \$325 million**
- **\$325 million – \$650 million**
- **\$650 million – \$1 billion**

Companies in the financial services industry are more traditionally benchmarked based on assets, not revenue; therefore, the asset ranges for this industry are \$50M to \$650M, \$650M to \$1.3B, and \$1.3B to \$2B. These asset ranges are referenced at the bottom of pages 7-9.

Industry

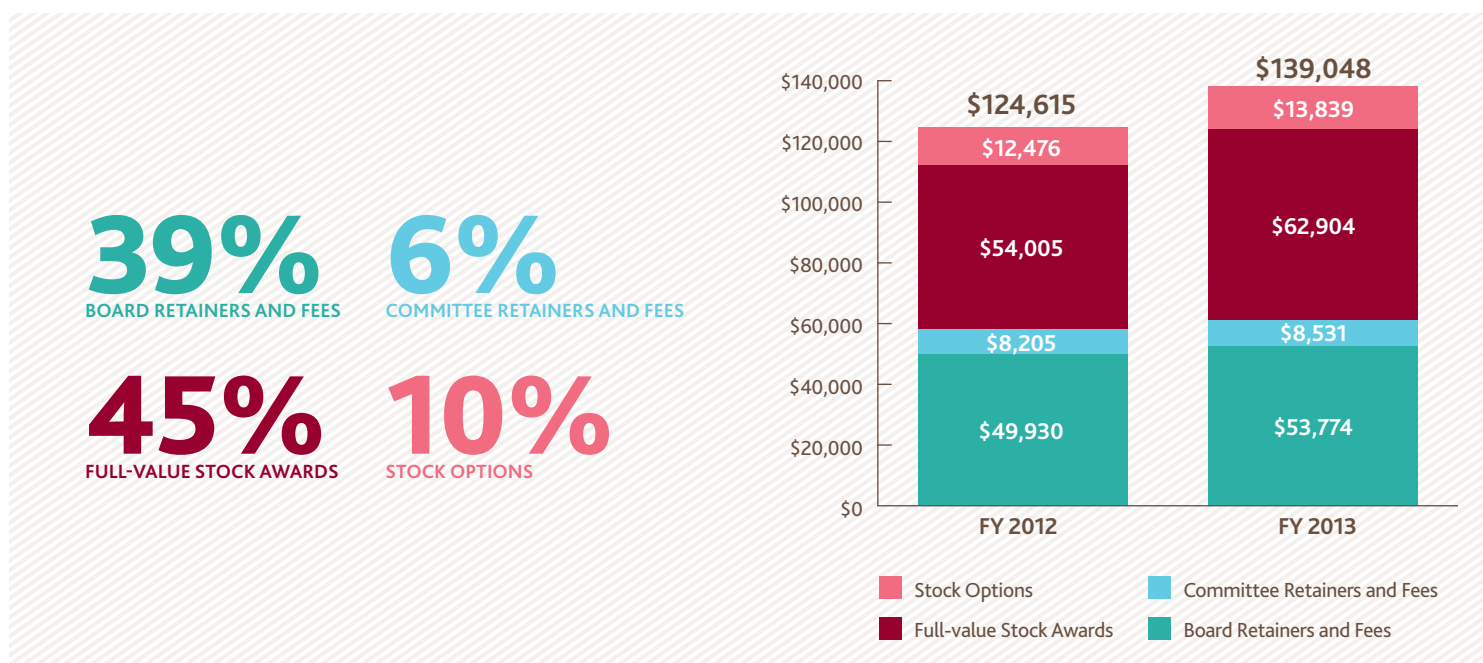
Industry group is another common lens used when benchmarking director and executive compensation. In our survey, we report compensation provided to directors of companies in the following industries:

- **Energy**
- **Financial Services – Banking**
- **Financial Services – Nonbanking**
- **Healthcare**
- **Manufacturing**
- **Real Estate**
- **Retail**
- **Technology**

Additional Notes on the Survey

One of the most important aspects of survey work is maintaining a consistent, quantitative platform for analysis. The majority of companies used in last year's analysis were included in this year's examination.

If it was necessary to establish a common comparative base for all 600 companies surveyed, data was annualized and a consistent methodology was used to value compensation. If a surveyed company could not be brought into parity with other participant companies, it was excluded from the survey and replaced with a company chosen at random to obtain a representative sample across industries and company size.



*All figures are rounded to the nearest whole number

► OVERALL RESULTS

For the 600 companies surveyed, BDO found that average total compensation paid to board members for the fiscal year ending in 2013 ("FY 2013") was \$139,048. This value is comprised of board retainers and fees (\$53,774), committee retainers and fees (\$8,531), full-value stock awards (\$62,904), and stock options (\$13,839).

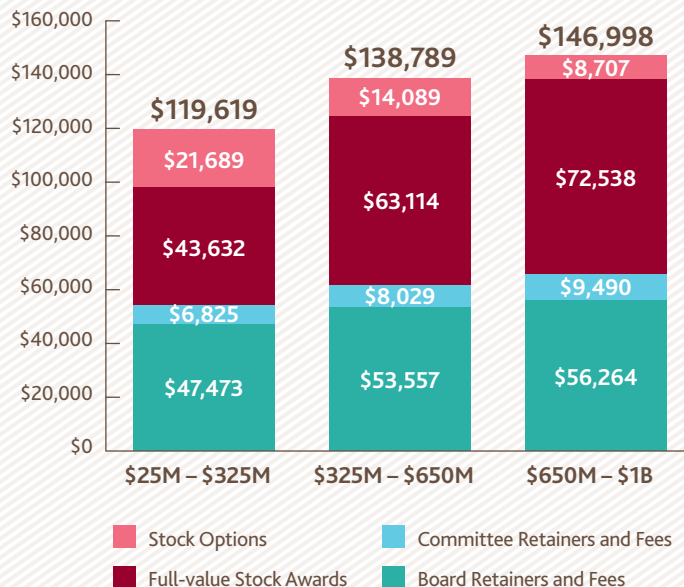
Director compensation in FY 2013 (\$139,048) is up by an average of 12% over FY 2012 (\$124,615).

We also note the mix of pay for these companies for FY 2013 was 39% board retainers and fees (about the same as last year), 6% committee retainers and fees (down 1% from last year), 45% full-value stock awards (43% last year), and 10% stock options (same as last year), which was very similar to the pay mix in the prior year. Additionally, the emphasis on full-value stock awards (which increased to 45% from 43%

last year) over stock options (which remained the same at 10% from last year) is consistent with the trends seen in executive compensation over the past few years. Restricted stock is less dilutive, minimizes the expense in the financial statements and will always deliver some economic value.

The remainder of this survey further dissects this collective data and presents results by company size and industry.

Our survey continues to confirm that director compensation increases as company size increases.



► SURVEY BY COMPANY SIZE

OVERALL RESULTS

As shown in the chart above, director compensation at the companies in our survey is generally correlated with company size. This result is expected given the established historical link between company size and compensation among executives.

Compensation for Board members continues to increase compared to last year:

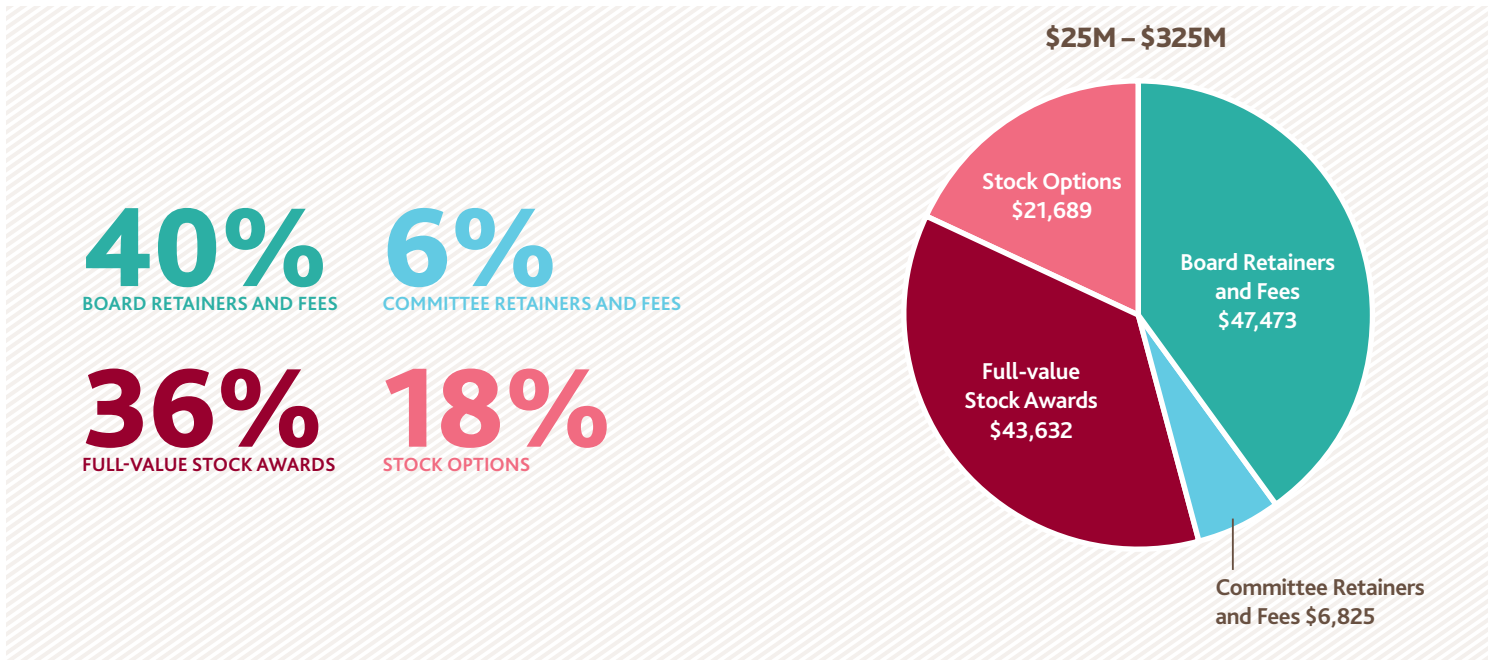
- Total Compensation increased from \$104,290 to \$119,619 (15% increase) for the \$25 million to \$325 million revenue range
- Total Compensation increased from \$119,911 to \$138,789 (16% increase) for the \$325 million to \$650 million revenue range
- Total Compensation rose slightly from \$143,199 to \$146,998 (3% increase) for the \$650 million to \$1 billion revenue range

As previously mentioned, companies in the financial services industries (banking and nonbanking) were categorized based on asset size between \$50 million and \$2 billion.

Our findings reveal that companies of all sizes favor equity over cash, though in the past larger companies provided a higher proportion of compensation in equity than the smaller companies, the mix is now fairly similar.

We also found that stock awards are favored over stock options for companies of all sizes. The average stock option grant value increased slightly to \$13,839 from around \$12,475 last year for companies of all sizes. The average stock option grant was inversely proportionate to company size, averaging \$21,689 for the smaller companies and only \$8,707 for the larger companies.

The following pages detail our findings for each of the three company size categories.

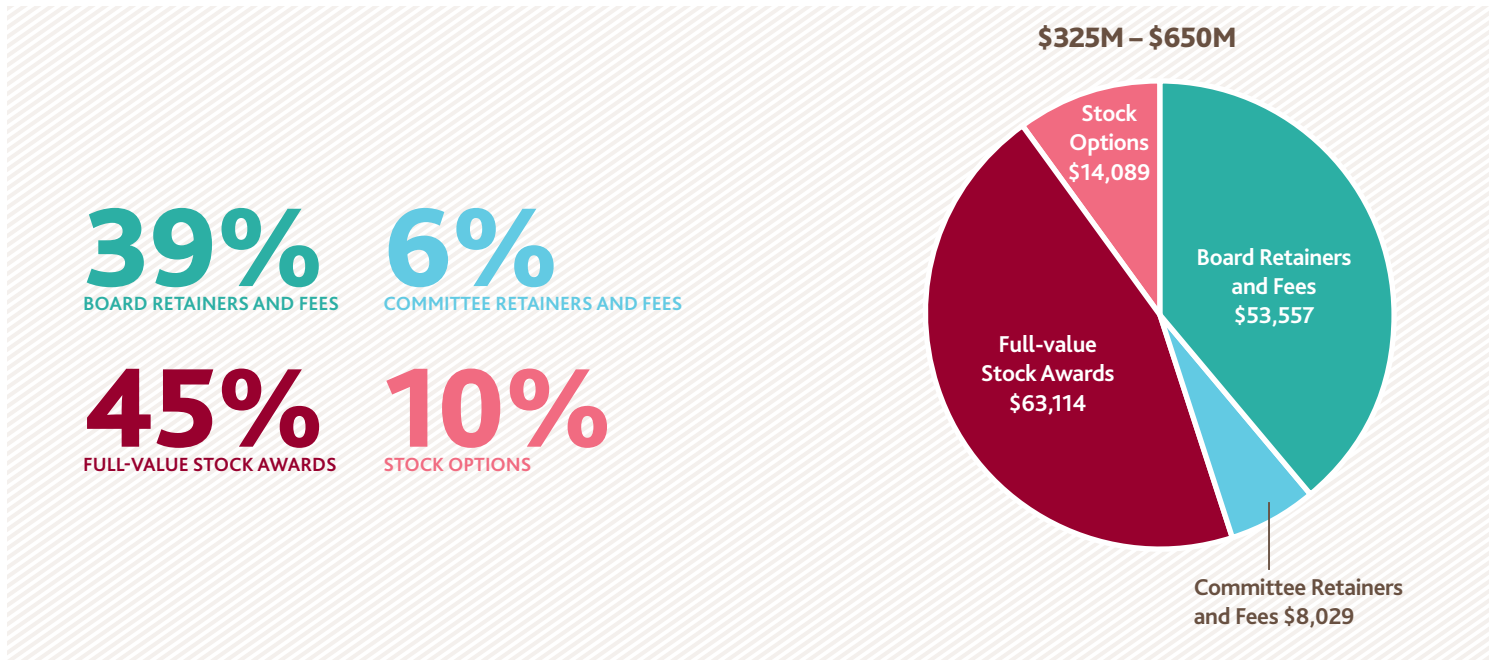


► SURVEY BY COMPANY SIZE
**\$25 MILLION TO
 \$325 MILLION***

The average annual total compensation paid to board members of companies with between \$25 million and \$325 million* in revenues for FY 2013 service was \$119,619. This value is comprised of board retainers and fees (\$47,473, an increase from \$45,097 last year), committee retainers and fees (\$6,825, a decrease from \$7,818 last year), full-value stock awards (\$43,632, an increase from \$37,459 last year), and stock options (\$21,689, a significant increase from \$13,916 last year).

The pay mix for these companies is 40% board retainers and fees (43% last year), 6% committee retainers and fees (8% last year), 36% full-value stock awards (same as last year), and 18% stock options (13% last year).

*Financial service companies in this data sample have between \$50M and \$650M in assets.

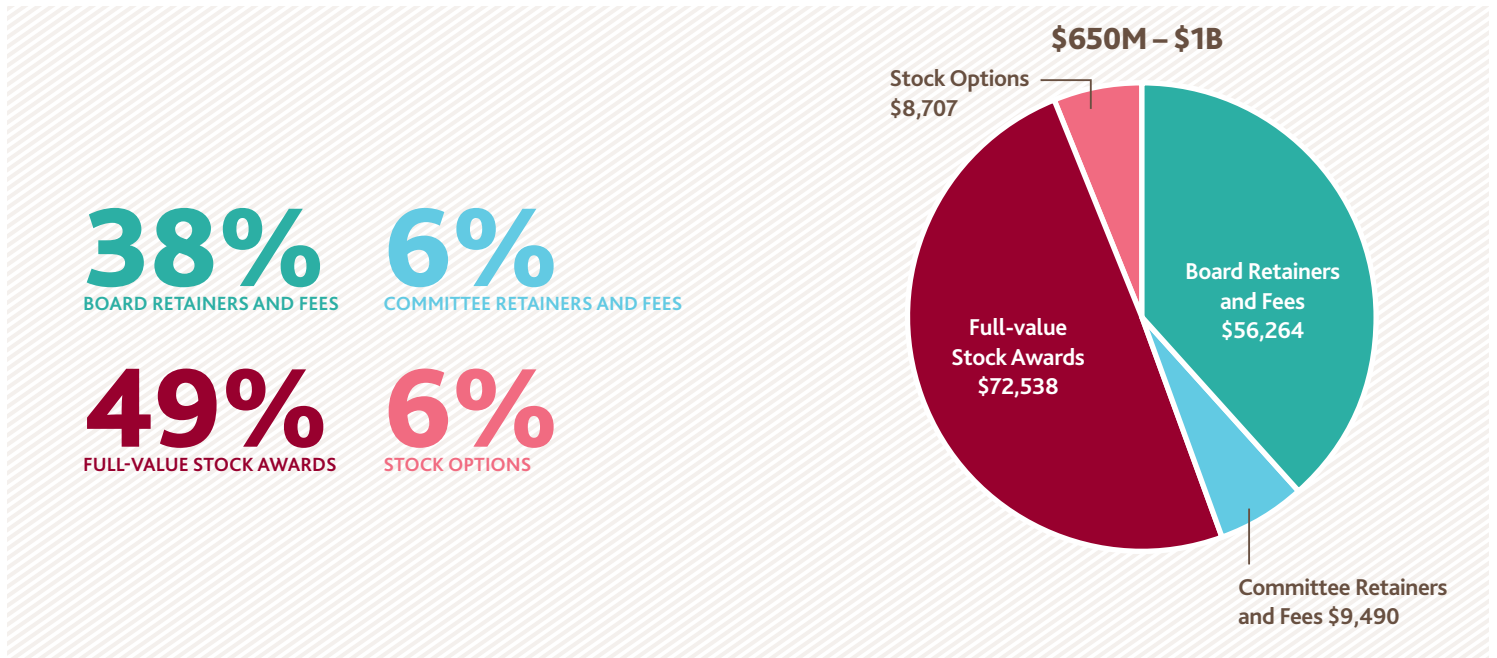


► SURVEY BY COMPANY SIZE
**\$325 MILLION TO
 \$650 MILLION***

The average annual total compensation paid to board members of companies with between \$325 million and \$650 million* in revenues for FY 2013 service was \$138,789 (up from \$119,911 last year). This value is comprised of board retainers and fees (\$53,557, an increase from \$50,500 last year), committee retainers and fees (\$8,029, an increase from \$7,263 last year), full-value stock awards (\$63,114, an increase from \$49,781 last year) and stock options (\$14,089, an increase from \$12,367 last year).

The pay mix for these companies is 39% board retainers and fees (42% last year), 6% committee retainers and fees (6% last year), 45% full-value stock awards (42% last year), and 10% stock options (same as last year).

*Financial service companies in this data sample have between \$650M and \$1.3B in assets.

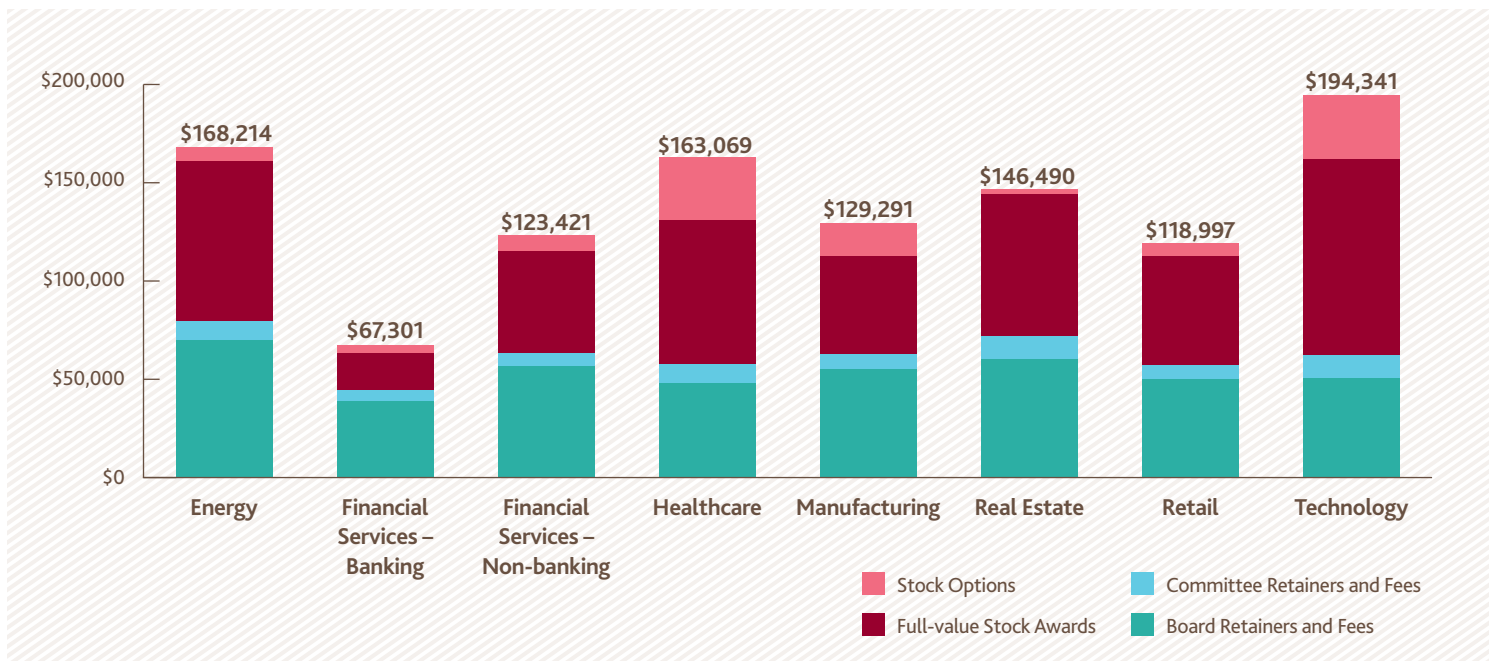


► SURVEY BY COMPANY SIZE
\$650 MILLION TO \$1 BILLION*

The average annual total compensation paid to board members of companies with between \$650 million and \$1 billion* in revenues for FY 2013 service was \$146,998 (an increase from \$143,199 last year). This value is comprised of board retainers and fees (\$56,264, an increase from \$51,521 last year), committee retainers and fees (\$9,490, a slight increase from \$9,449 last year), full-value stock awards (\$72,538, an increase from \$69,674 last year) and stock options (\$8,707, a decrease from \$12,556 last year).

The pay mix for these companies is 38% board retainers and fees (36% last year), 6% committee retainers and fees (7% last year), 49% full-value stock awards (48% last year), and 6% stock options (9% last year). For this revenue category, the highest percentage of equity compensation comes via stock awards compared to companies in the lower revenue categories.

*Financial service companies in this data sample have between \$1.3B and \$2B in assets.



► SURVEY BY INDUSTRY

OVERALL RESULTS

As shown in the chart above, director compensation has the potential to vary considerably by industry. For middle market companies, industry is just as important as company size when benchmarking director compensation.

Average director compensation ranged from \$67,301 for companies in the financial services–banking industry to \$194,341 for companies in the technology industry. Generally, the industries that pay more do so via equity (stock and/or stock options). Fixed pay (i.e., retainers and fees) ranged from \$44,394 (\$43,915 last year; financial services–banking) at the low end to \$79,752 (\$69,570 last year; energy) at the high end. Whereas variable pay (i.e., stock and stock options) had a much wider range of \$22,907 (\$20,800 last year; financial services–banking) at the low end, to \$131,992 (\$113,027 last year; technology) at the high end.

Our findings reveal that companies in the financial services–banking, financial services–nonbanking, and real estate industries (the same three industries as last year) favor fixed compensation over equity compensation. Companies in the remaining industries favor equity over fixed compensation.

We also found that stock awards are favored over stock options for companies in all industries.

The following pages detail our findings for each of the eight industries.



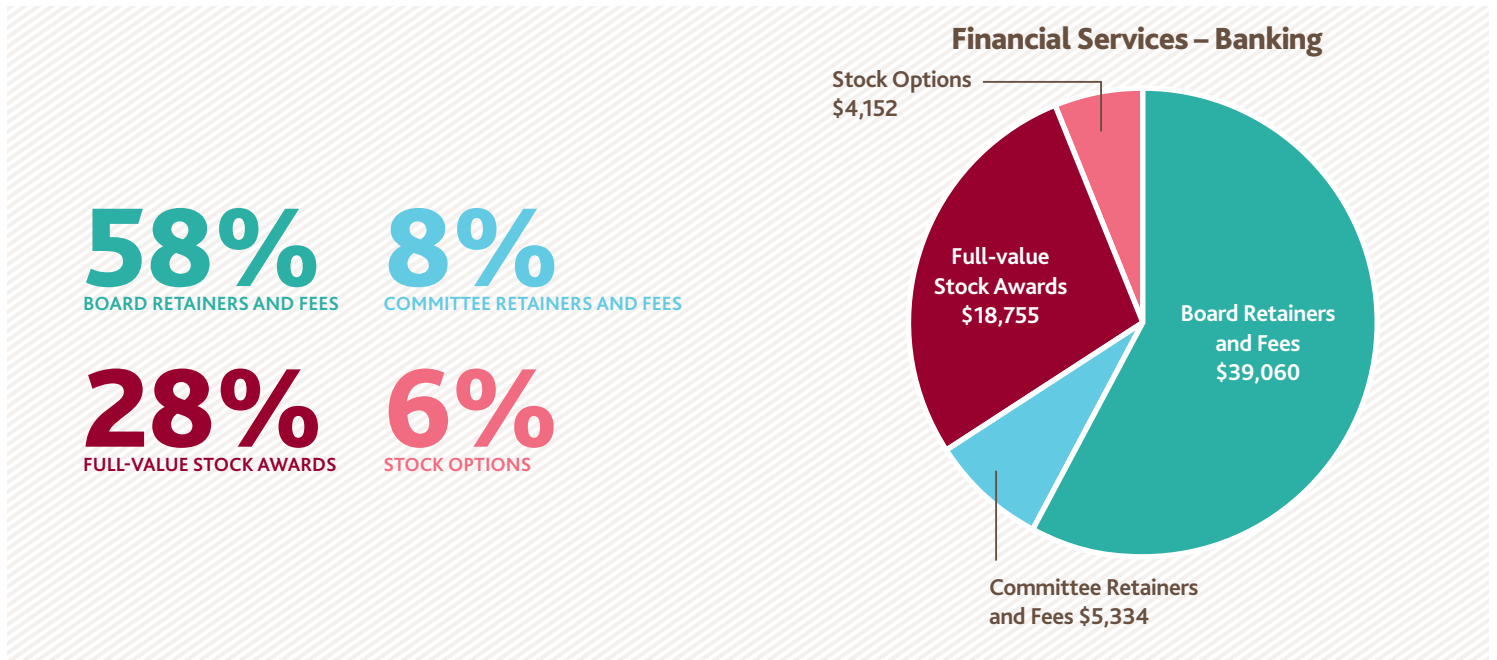
► SURVEY BY INDUSTRY

ENERGY

The average annual total compensation paid to board members of companies in the energy industry for FY 2013 service was \$168,214 (an increase from \$154,489 last year). This value is comprised of board retainers and fees (\$69,806, an increase from \$60,396 last year), committee retainers and fees (\$9,946, an increase from \$9,174 last year), full-value stock awards (\$80,972, an increase from \$76,776 last year) and stock options (\$7,490, a decrease from \$8,143 last year).

The pay mix for these companies is 42% board retainers and fees (up from 39% last year), 6% committee retainers and fees (same as last year), 48% full-value stock awards (50% last year), and 4% stock options (5% last year).

Average total compensation paid to energy industry directors (\$168,214) is second only to technology industry directors (\$194,341).

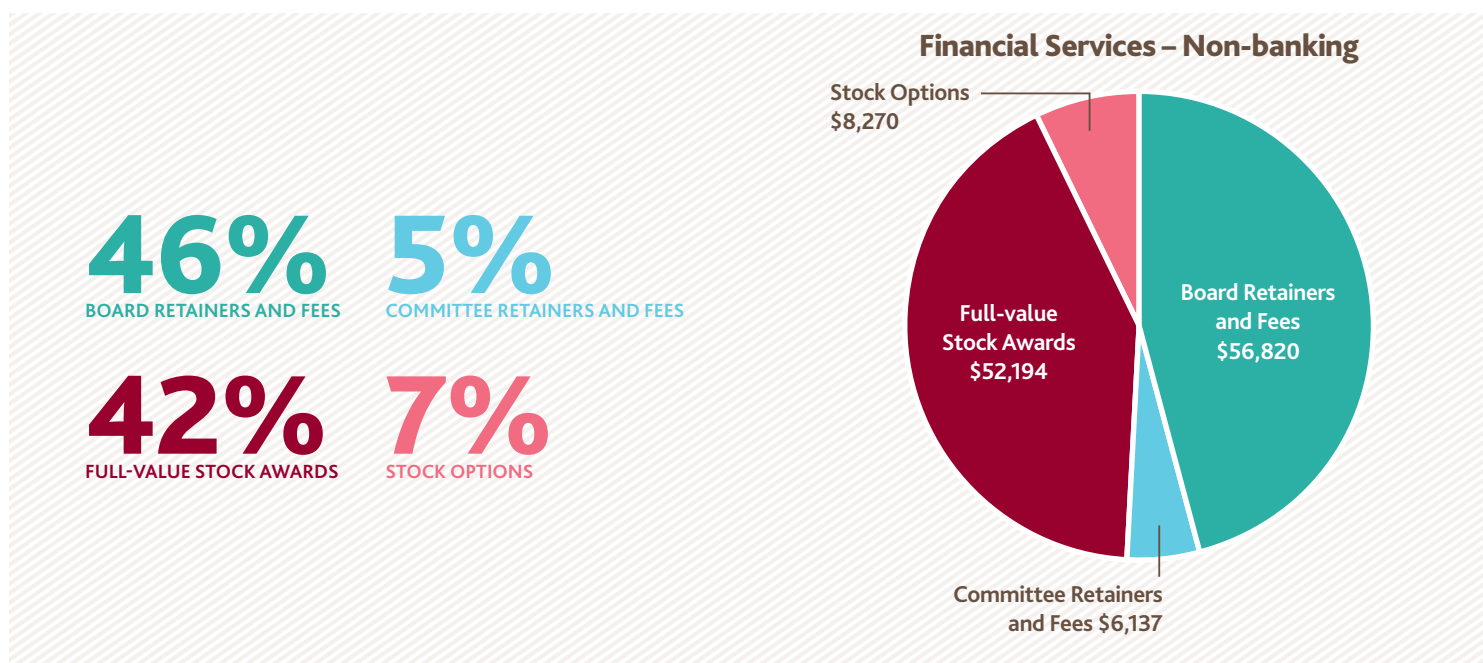


► SURVEY BY INDUSTRY
FINANCIAL SERVICES – BANKING

The average annual total compensation paid to board members of companies in the financial services–banking industry for FY 2013 service was \$67,301 (an increase from \$64,716 last year). This value is comprised of board retainers and fees (\$39,060, an increase from \$38,064 last year), committee retainers and fees (\$5,334, a decrease from \$5,852 last year), full-value stock awards (\$18,755, an increase from \$16,544 last year) and stock options (\$4,152, a slight decrease from \$4,256 last year).

The pay mix for these companies is 58% board retainers and fees (59% last year), 8% committee retainers and fees (9% last year), 28% full-value stock awards (26% last year), and 6% stock options (7% last year). Our analysis found that financial services–banking companies provide the highest percentage of pay via cash compared to the companies in the other industries.

Director pay in this industry remained somewhat flat, with only a 4% increase over last year, the second lowest in the survey. Average director compensation in the financial services–banking industry remains the lowest of the industries included in our survey.



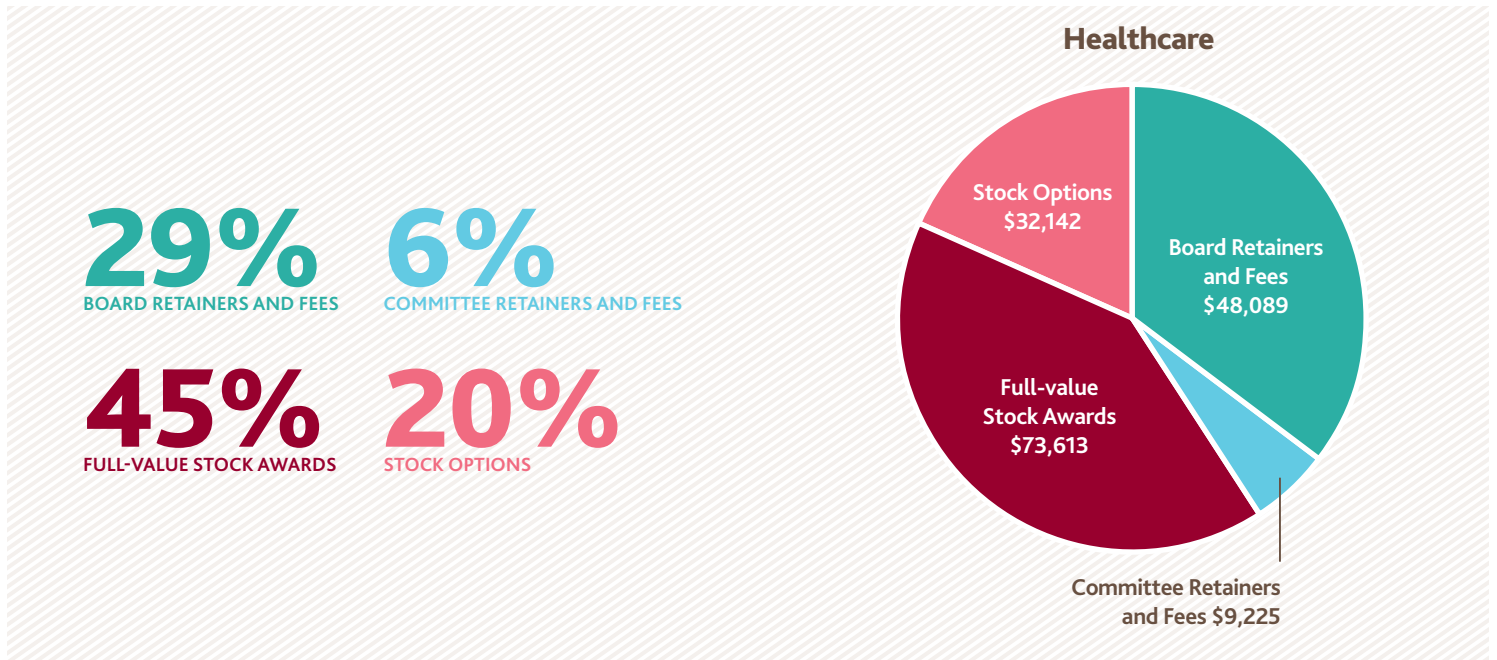
► SURVEY BY INDUSTRY

FINANCIAL SERVICES – NON-BANKING

The average annual total compensation paid to board members of companies in the financial services–nonbanking industry for FY 2013 service was \$123,421 (an increase from \$91,038 last year). This value is comprised of board retainers and fees (\$56,820, an increase from \$49,092 last year), committee retainers and fees (\$6,137, about the same as \$6,190 last year), full-value stock awards (\$52,194, a large increase from \$30,439 last year) and stock options (\$8,270, an increase from \$5,317 last year).

The pay mix for these companies is 46% board retainers and fees (54% last year), 5% committee retainers and fees (7% last year), 42% full-value stock awards (33% last year), and 7% stock options (6% last year). Our analysis found that unlike companies in the other industries, the financial services companies (banking and nonbanking) provide more compensation in cash than they do in equity, however the nonbanking sector is moving to a more equity based ratio.

Average total director compensation in the financial services–nonbanking industry has consistently been among the lowest of the industries included in our survey, but it is starting to approach the levels of the other industries.



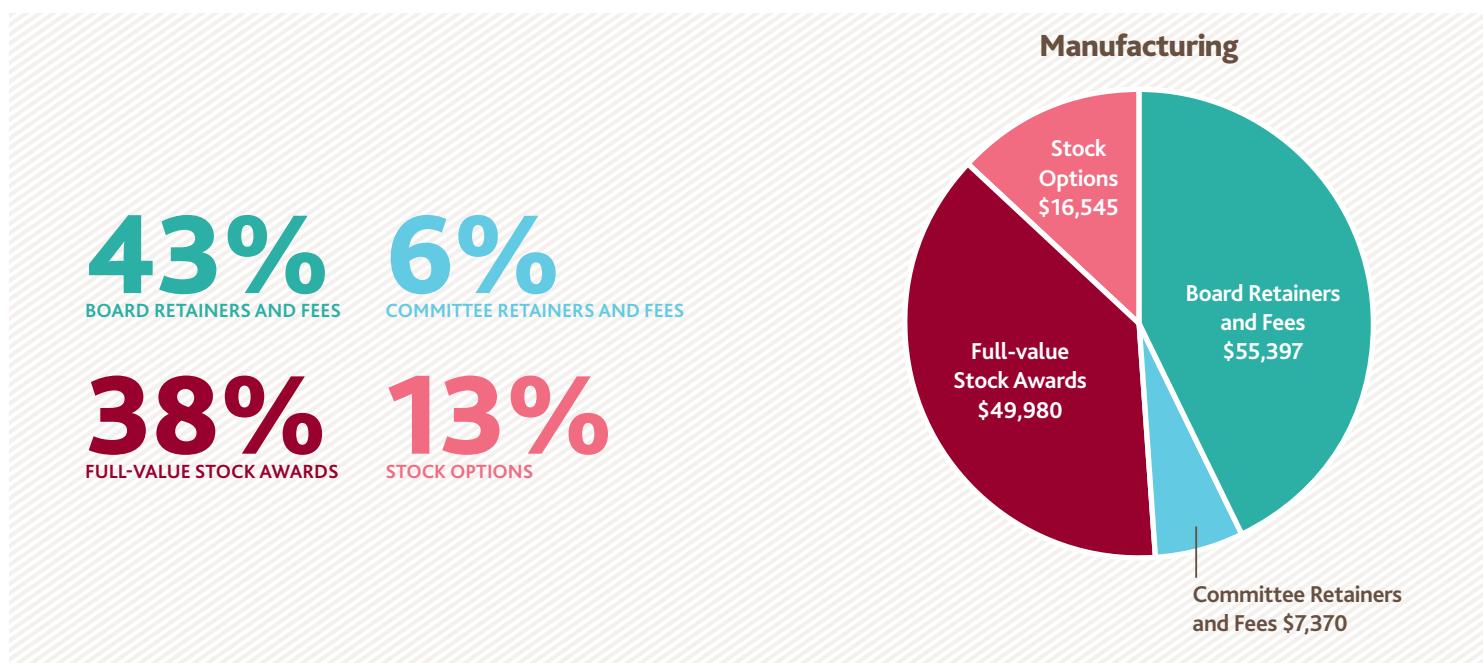
► SURVEY BY INDUSTRY
HEALTHCARE

The average annual total compensation paid to board members of companies in the healthcare industry for FY 2013 service was \$163,069 (an increase from \$146,636 last year). This value is comprised of board retainers and fees (\$48,089, an increase from \$44,951 last year), committee retainers and fees (\$9,225, an increase from \$8,909 last year), full-value stock awards (\$73,613, an increase from \$64,408 last year) and stock options (\$32,142, an increase from \$28,368 last year).

Director compensation at these companies increased by 11% compared to pay in the prior fiscal year.

The pay mix for these companies is 29% board retainers and fees (31% last year), 6% committee retainers and fees (same as last year), 45% full-value stock awards (44% last year) and 20% stock options (19% last year). Healthcare and Technology companies use the highest percentage of equity and the smallest percentage of cash in their compensation plans compared to other industries. The pay mix ratio remained almost identical to last year's.

The amount of equity offered by healthcare companies in our survey (\$105,755, is up from \$92,776 last year) is second only to technology companies.



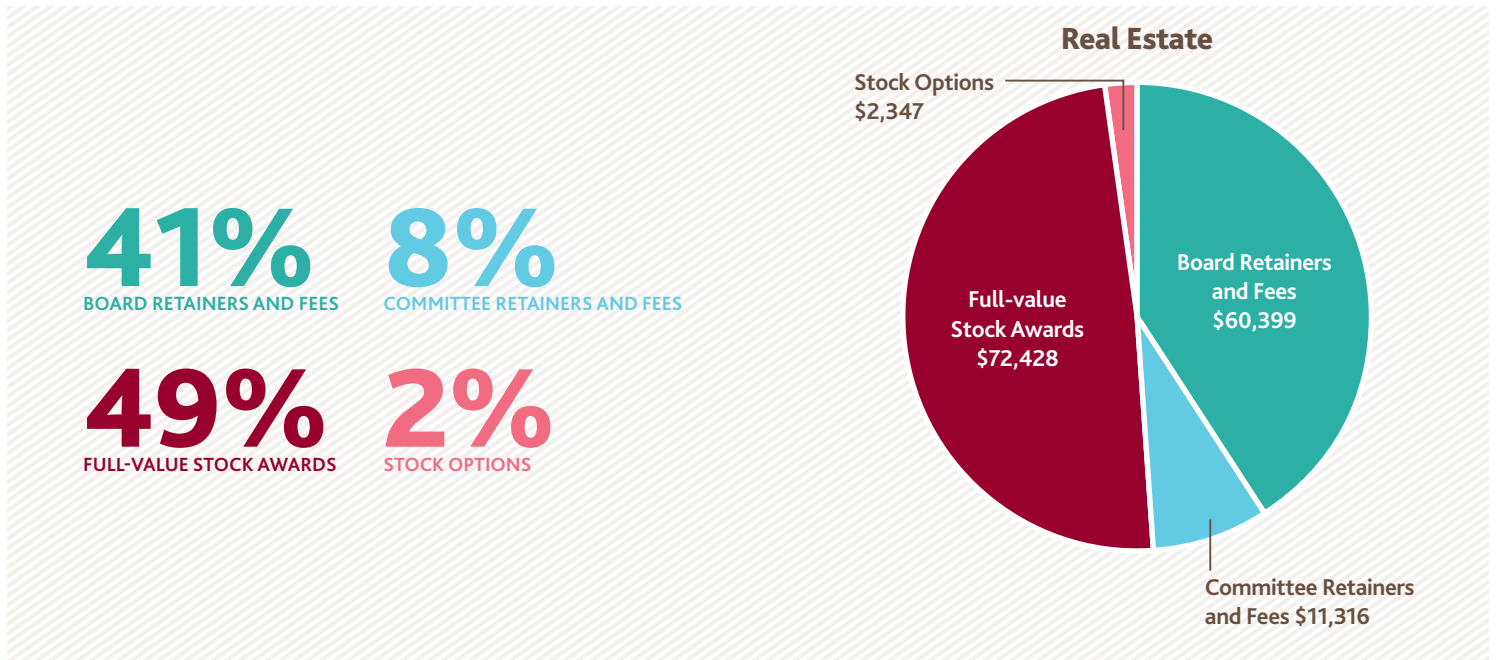
► SURVEY BY INDUSTRY

MANUFACTURING

The average annual total compensation paid to board members of companies in the manufacturing industry for FY 2013 service was \$129,291 (an increase from \$117,437 last year). This value is comprised of board retainers and fees (\$55,397, an increase from \$49,743 last year), committee retainers and fees (\$7,370, down slightly from \$7,520 last year), full-value stock awards (\$49,980, an increase from \$47,369 last year) and stock options (\$16,545, an increase from \$12,805 last year).

Director compensation at these companies increased by 10% compared to pay in the prior fiscal year.

The pay mix for these companies is 43% board retainers and fees (42% last year), 6% committee retainers and fees (6% last year), 38% full-value stock awards (40% last year), and 13% stock options (11% last year).

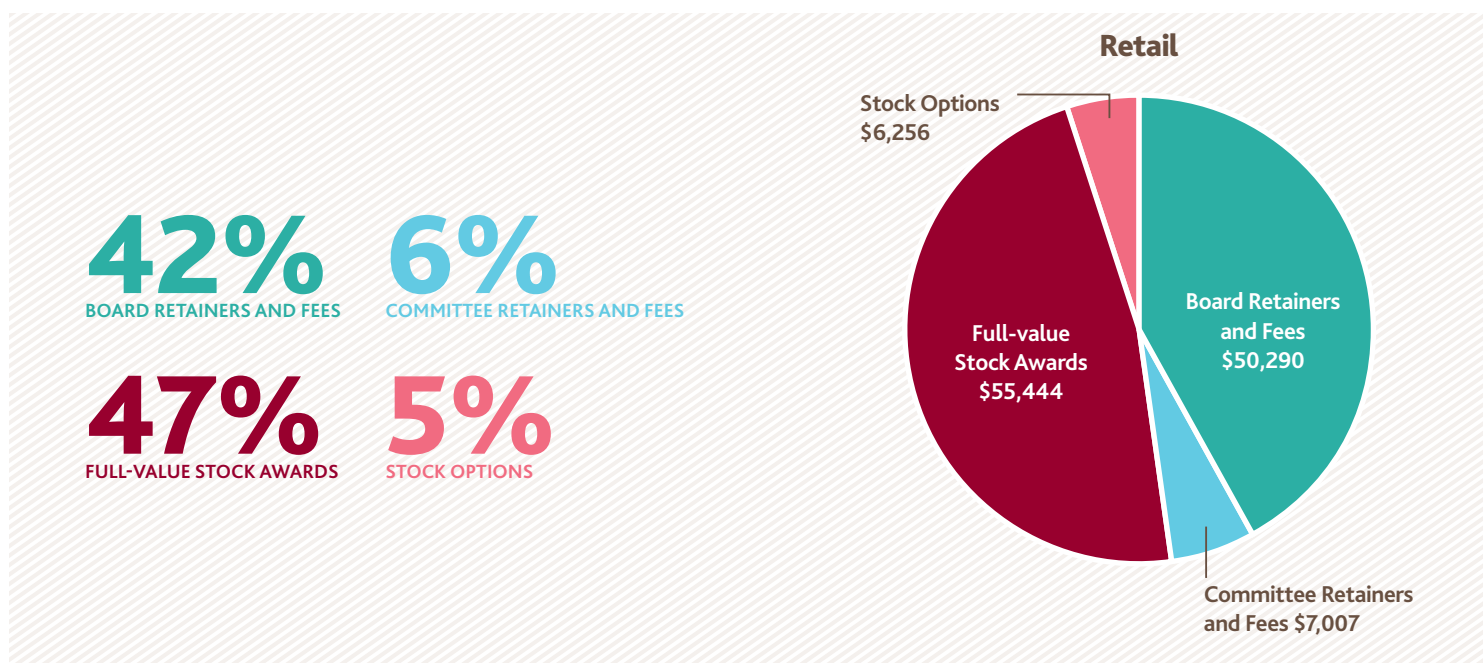


► SURVEY BY INDUSTRY
REAL ESTATE

The average annual total compensation paid to board members of companies in the real estate industry for FY 2013 service was \$146,490 (an increase from \$133,148 last year). This value is comprised of board retainers and fees (\$60,399, an increase from \$57,920 last year), committee retainers and fees (\$11,316, an increase from \$10,253 last year), full-value stock awards (\$72,428, an increase from \$59,631 last year) and stock options (\$2,347, a decrease from \$5,344 last year).

When compared to pay in the prior fiscal year, director compensation at these companies increased by 10%.

The pay mix for these companies is 41% board retainers and fees (44% last year), 8% committee retainers and fees (same as last year), 49% full-value stock awards (45% last year), and 2% stock options (4% last year).



► SURVEY BY INDUSTRY

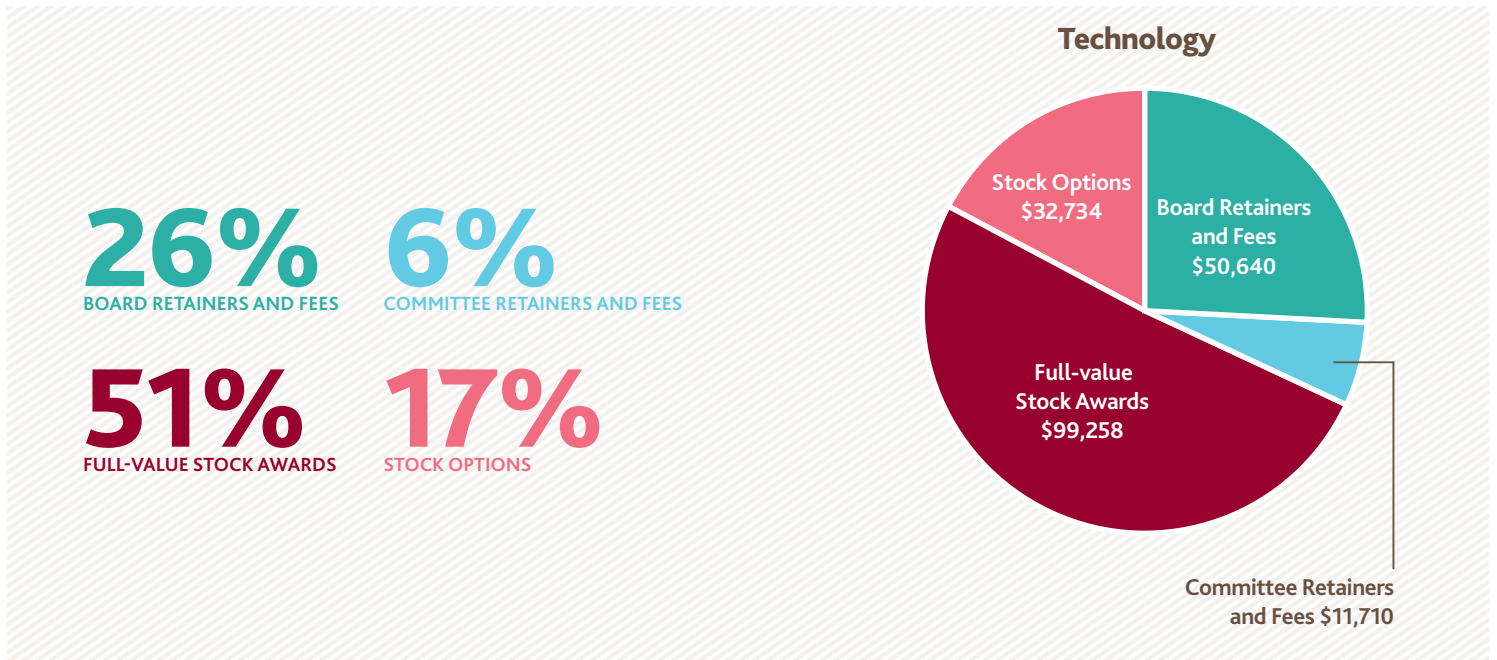
RETAIL

The average annual total compensation paid to board members of companies in the retail industry for FY 2013 service was \$118,997 (a slight increase from \$117,080 last year). This value is comprised of board retainers and fees (\$50,290, an increase from \$48,420 last year), committee retainers and fees (\$7,007, a slight increase from \$6,932 last year), full-value stock awards (\$55,444, an increase from \$51,168 last year), and stock options (\$6,256, a decrease from \$10,560 last year).

When compared to pay in the prior fiscal year, director compensation at these companies increased just 2%, the smallest increase among all the industries.

The pay mix for these companies is 42% board retainers and fees (41% last year), 6% committee retainers and fees (same as last year), 47% full-value stock awards (44% last year), and 5% stock options (9% last year).

Average total compensation paid to retail industry directors is lower than director compensation for the other non-financial services industries in our survey.



► SURVEY BY INDUSTRY
TECHNOLOGY

The average annual total compensation paid to board members of companies in the technology industry for FY 2013 service was \$194,341 (an increase from \$174,407 last year). This value is comprised of board retainers and fees (\$50,640, a slight increase from \$50,506 last year), committee retainers and fees (\$11,710, an increase from \$10,874 last year), full-value stock awards (\$99,258, an increase from \$86,795 last year), and stock options (\$32,734, an increase from \$26,232 last year).

The pay mix for these companies is 26% board retainers and fees (29% last year), 6% committee retainers and fees (same as last year), 51% full-value stock awards (50% last year), and 17% stock options (15% last year).

Driven by high committee retainers and fees and full-value stock awards, average director compensation in the technology industry is the highest of the industries included in our survey. While director pay in this industry was somewhat flat during the prior year, with only a 2% increase, pay increased by 11% this year.

The BDO 600: 2014 Survey of Board Compensation Practices of 600 Mid-Market Public Companies examined the director compensation practices of publicly traded companies in the energy, financial services–banking, financial services–nonbanking, healthcare, manufacturing, real estate, retail, and technology industries. Companies in the six non-financial service industries in our survey have annual revenues between \$25 million and \$1 billion. Companies in the two financial services industries in our survey have assets between \$50 million and \$2 billion.

► ABOUT BDO

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► ABOUT KENEXA

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CONTACT US

If you have any questions, comments or suggestions, please contact our Compensation and Benefits practice by emailing us at compensation@bdo.com or by calling your local BDO office.

Please visit www.bdo.com/bdo600 for the electronic copy of this survey.

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