BDO 600

Board Director Compensation Trends in Middle-Market Energy Companies

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DIRECTOR COMPENSATION CONTINUES TO CLIMB IN SIX DIFFERENT INDUSTRIES BUT DECLINES IN TWO, ACCORDING TO AN ANALYSIS CONDUCTED BY BDO USA, LLP, A LEADING ACCOUNTING AND CONSULTING ORGANIZATION.

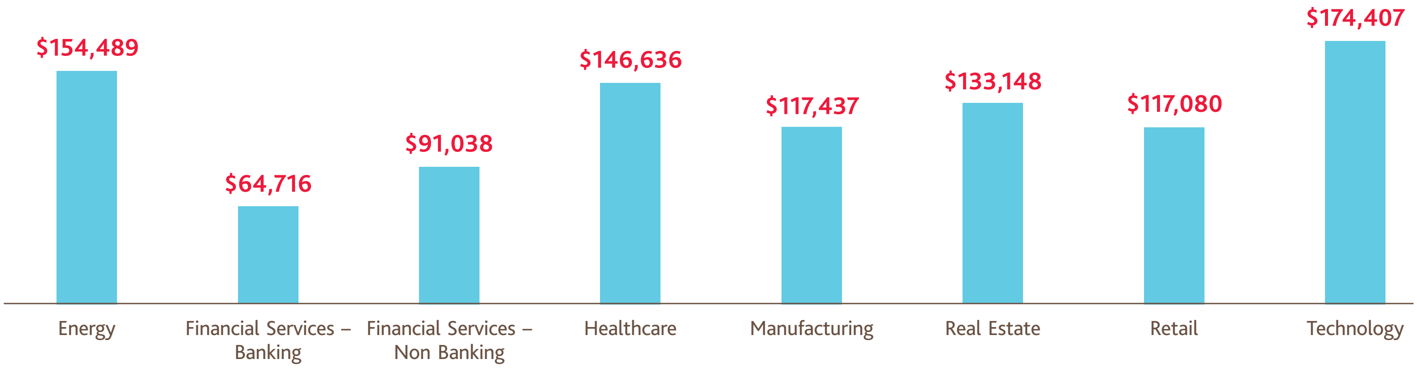
The ***BDO 600: 2013 Survey of Board Compensation Practices of 600 Mid-Market Public Companies*** examines the director compensation trends in publicly traded companies with annual revenues from $25 million to $1 billion in the energy, healthcare, manufacturing, real estate, retail and technology industries; and publicly traded companies with assets between $50 million and $2 billion in the banking and financial services industries. The study included proxy statements that were filed between May 15, 2012, and May 15, 2013.

The energy industry continues to see some of the largest board director compensation packages, with directors receiving an average total pay of $154,489. While this represents only a small increase (two percent) over their compensation for the last fiscal year, energy company directors still receive the second highest amount of total compensation, ranking just behind the technology industry ($174,407) and slightly ahead of the healthcare industry ($146,636).

"While directors in the energy sector saw little year-over-year growth in compensation compared with the majority of other industries, they remain the second highest paid board members overall," says **Randy Ramirez, senior director in the Global Employer Services practice at BDO**. "Energy is still one of the strongest performing industries, and the demand for the most qualified directors will only continue to grow."

▶ Read more

Board Director Compensation by Industry 2011 – 2012



▶HIGH RISK INDUSTRY OFTEN BRINGS HIGH REWARD

The shale boom continues to be the main driver of growth in the U.S. energy industry. According to Reuters, the U.S. has already surpassed Saudi Arabia as the world's leading oil producer, and the Wall Street Journal reports that the U.S. is also on track to supplant Russia as the world's leading producer of oil and gas combined. Consequently, it is no surprise that director compensation in this industry is quite high relative to other industries. Energy director compensation is over double the amount of compensation in the lowest-paid industry (banking).

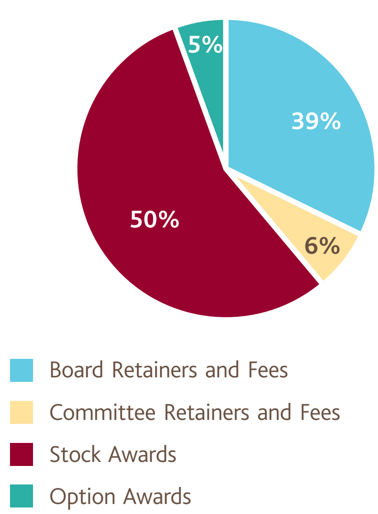
▶BOARDS FEEL PRESSURE FROM POLICY CONCERNS

Despite major advances in exploration and production, the energy industry is facing several obstacles inhibiting its ability to take full advantage of the United States' growing economic power in this space. A lack of adequate transportation infrastructure and refining capacity is preventing valuable shale resources from making it to market, while an uncertain regulatory environment—particularly in regard to hydraulic fracturing and the ability of the U.S. to export its energy products—is slowing the industry's momentum. As a result, directors' responsibilities have grown substantially, but their compensation this year has grown only modestly.

▶PAY MIX CONTINUES TO FAVOR EQUITY

Energy directors receive 55 percent of their compensation in stock awards and options, similar to last year's overall pay mix. However, awards continue to increase while options lose popularity. To that end, stock options included in compensation packages decreased by nearly half, while stock awards grew by 13 percent. This suggests that while equity remains an important way to align board interests with those of investors and to incentivize overall growth, the relative risk associated with options (especially in light of industry uncertainties) has made them less attractive. Stock awards, on the other hand, provide a more stable buy-in for directors in this highly volatile industry.

Pay Mix Favors Stock Awards



▶ENERGY SECTOR REMAINS A STRONG ECONOMIC DRIVER

The energy industry remains an economic powerhouse for the United States, and its high director pay reflects the high-risk, high-reward cycle inherent in the sector. Energy companies must provide compelling, competitive pay packages to attract board members with the right skill sets to navigate one of the most volatile industries in the world in a time of persistent regulatory uncertainty.

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