BDO 600

Board Director Compensation Trends in Energy

Director compensation among middle market public companies is up 12 percent in fiscal year 2013, a significant jump from the 3 percent increase in the previous year, according to an analysis of 600 companies conducted by BDO USA, LLP, a leading accounting and consulting organization.

For the second year in a row, the energy industry has provided some of the leading director compensation packages observed in the study, matching the industry's high demand for only the most qualified directors. In the 2013 fiscal year, energy directors received an average of $168,214, up 9 percent from fiscal year 2012. According to the study, these directors were awarded the second highest compensation packages, falling just behind technology directors and slightly ahead of healthcare directors.

"The U.S. energy industry, backed by significant advancements in shale extraction, has grown exponentially in recent years," says **Lance Froelich, a senior director on Compensation in the Corporate Governance Practice of BDO USA**. "The role of a board member has become increasingly complex, requiring experience, strategic guidance and a significant time commitment – especially with the recent plunge of oil prices. These increased demands, coupled with a limited pool of qualified candidates, has driven growth in board compensation."

U.S. BECOMING A GLOBAL ENERGY POWERHOUSE

Amid a domestic oil and gas surplus, the United States is turning an eye abroad, evaluating opportunities to export liquefied natural gas and, potentially, crude oil. This shift could be influencing director compensation, which, for this sector, exceeds the average across all industries

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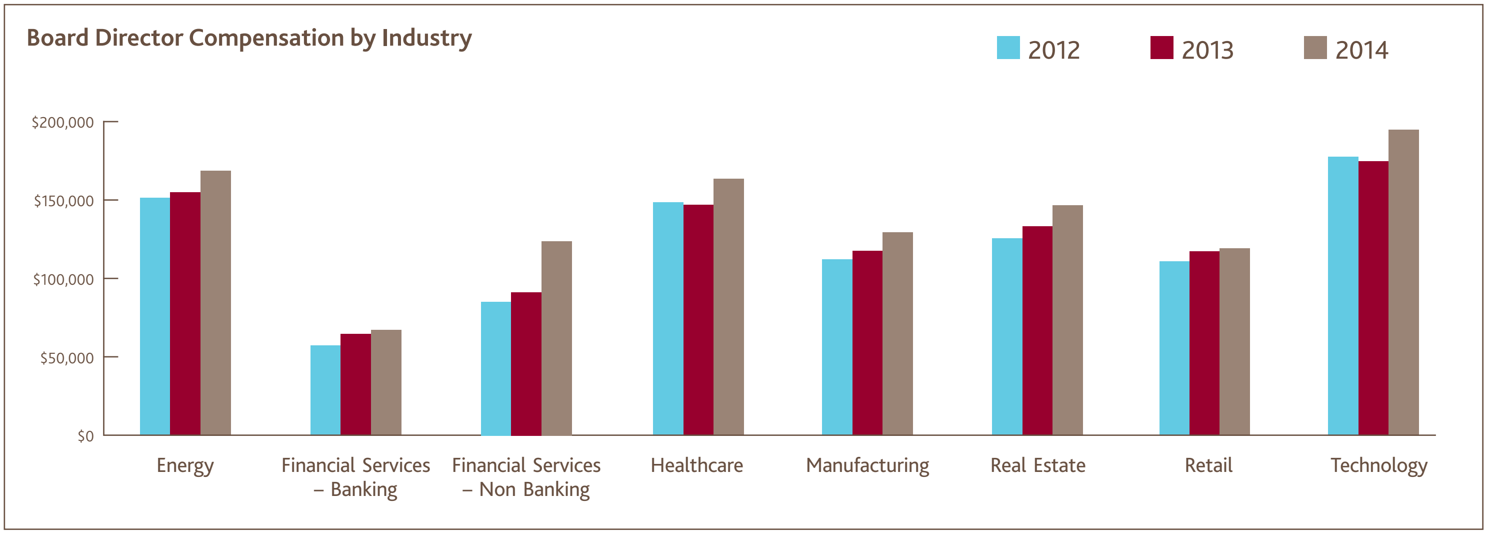
CONTACT:

CHARLES DEWHURST, Houston
713-986-3127 / cdewhurst@bdo.com

ANDY GIBSON, Atlanta, Ga.
404-979-7106 / agibson@bdo.com

RANDY RAMIREZ, New York, N.Y.
212-885-8000 / rramirez@bdo.com



examined in the study by approximately 21 percent and is more than the double the average compensation in the lowest-paid industry (banking).

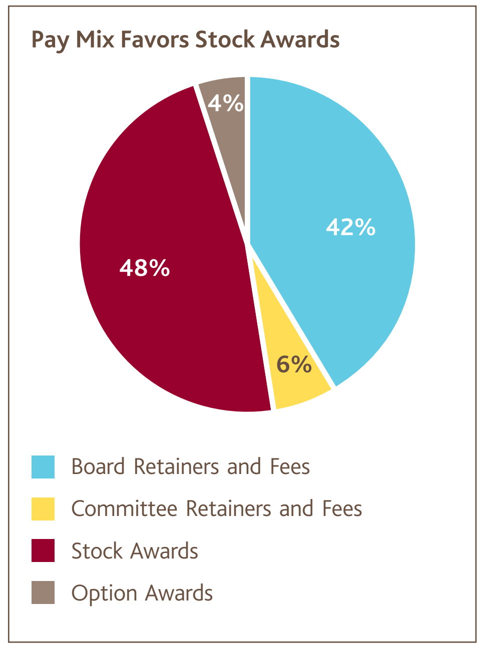
COMPETITION FOR LEADERSHIP HEATS UP

Along with the industry's rapid growth, demand for qualified leadership in an increasingly crowded sector may be further accelerating director compensation growth. According to the 2014 BDO Oil & Gas RiskFactor Report, 80 percent of the top 100 publicly traded U.S. oil and gas companies specifically cite their ability to attract and retain key personnel – including board leadership – as a risk in their most recent 10-K filings.

PAY MIX BEGINS TO EQUALIZE

Though energy directors' compensation packages still tend to favor equity over fees, this year, stock awards and options accounted for 52 percent of pay packages, down from 55 percent last year. Stock options continue to decline in popularity, comprising only 4 percent of pay this year and decreasing in value 8 percent from 2012. Meanwhile, though the value of stock awards grew by 5 percent, their overall share of director pay decreased from 50 percent in 2012 to 48 percent this year. At the same time, board and committee retainers and fees grew for the second year in a row, albeit at a slightly faster clip than in 2012. Board retainers increased by 16 percent, while committee retainers grew by 8 percent. These fees saw increases of 2 percent and 7 percent, respectively, last year.

The shifting composition of director pay suggests that, while companies remain eager to tie compensation to the company's performance by favoring equity in their pay packages, the need to compete for qualified directors may be tipping the scale ever so slightly toward fixed pay.



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