

ICD/Venture Group
BC Directors Breakfast Club

Director Compensation

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SFU Harbour Centre

Presented by:
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Contents

1. Background – 2004 Presentation
2. Directors Club 2005 Survey
 - Participants – Mix of Private & Publicly Traded
 - Board Composition
 - Board Compensation – Cash and/or Equity
 - Board – Amount of Compensation
 - Committee Work – Additional Pay
3. Conclusions
4. The Future

1. Background

- Presentation on Director Compensation – October 19, 2004
- Analysis of pay practices of publicly traded
 - Large companies
 - Small cap technology companiesNo detailed specific information on private companies
- Overall small cap technology companies provided a median annual compensation level for directors of approximately \$30,000
- Our experience indicates that director compensation is increasing at 10 -20% per annum

2. Director Club 2005 Compensation Survey

- Survey conducted in October 2005
- Invited members of BC Directors Club
- 37 organizations completed the survey

Participating Organizations

Public	43%	BC	68%	High Tech	30%
Private	48%	Alta	8%	Venture Capital	8%
Not for profit	5%	USA	5%	Oil & Gas	8%
				Others *	40%

* Others included: telecommunications, communications, security, real estate, hospitality, pet specialty, education, philanthropic

NB. Percentages do not add to 100% because some participating organizations did not indicate

Size of Participating Organizations

Annual Revenues

Start-up/Not for profit	30%
\$0.5 – 5 million	22%
\$5 – 25 million	30%
Over \$25 million	14%

Market Cap (companies)

Under \$10 million	35%
\$10 – 100 million	38%
Over \$100 million	6%

Number of Employees

10 or less	22%
10 - 50	41%
50 - 100	16%
Over 100	16%

Number of Common Shares

Issued & Outstanding

10 million or less	38%
10 -50 million	35%
Over 50 million	11%

NB. Percentages do not add to 100% because some participating organizations did not indicate

Board Composition

Number of Directors

	P25	P50	P75
Total	4	5	7
Non- Management	3	4	5
Management	1	1	2

Leadership Independence

80% of organizations had (at minimum) either a Chairperson or Lead Director who is independent

Number of meetings

	P25	P50	P75
Total	6	7	9
In-person meetings	3	4	6
Teleconference meetings	2	3	4

Method of Compensation

Method of Compensation (Non Management Directors)

	All	Private Sector	Publicly Traded
Only cash	14%	11%	12%
Only equity-based	41%	67%	19%
Both equity & cash	38%	17%	69%
No compensation	3%	6%	0%

Only 2 organizations provided management directors compensation (in addition to executive compensation)

Method of Cash Compensation (Those providing)

	All	Private Sector	Publicly Traded
Only retainer	33%	40%	33%
Only meeting fees	11%	20%	8%
Both retainer & meeting fees	56%	40%	59%

Amounts of Cash Compensation (Those Providing)

	No. of Orgs.	P25	P50	P75
Board of Directors				
Annual retainer	16	\$6,000	\$8,000	\$10,000
In-person meeting fees	12	500	750	950
Teleconference meeting fee	8	375	500	500
Board Chair				
Extra annual retainer	8	\$5,000	\$6,250	\$10,900

No indication of higher compensation for Lead Director

Equity-Based Compensation

Method of Compensation

	No. of Orgs.	%
Stock Options/SARs	26	70
Common Stock	6	16
Not applicable/provided	5	

Five (5) of the six (6) companies providing common stock were privately held.

Equity-Based Compensation

	No. of Orgs.	Range of Grant (No. of options/shares)		
Stock Options				
Initial/Periodic Grant	19	100	to	325,000
Annual Grant	9	1,500	to	50,000
Common Stock				
Initial/Periodic Grant	6	10,000	to	200,000
Annual Grant	3	10,000	to	100,000

Based upon an average number of issued common shares of 10 million, this indicates one-time *issuances* of a maximum of 2 -3% and annual *issuances* up to 1%.

Stock Options – Design Components

- 26 companies provided stock options to directors
- Of those providing 5 out of 20 (19%) provided immediate up-front 100% vesting. Most of these did not provide any cash compensation
- 21 out of 26 (81%) provided some vesting. The most common was one third after each year of service – 100% (full) vesting after 3 years
- Term of options was generally 3 to 5 years

Board Committees

- **Number**
 - The number of Committees ranged from 2 (P25) to 3 (P75)
- **Cash Compensation**
 - Approximately half provided additional cash compensation for Committee work
 - Most prevalent form of compensation was for Committee meeting fees at lower rate vs. Board meeting fees (median of \$500 per meeting)
- **Equity-Based Compensation**
 - No indication of additional equity-based compensation for Committee work

Committee Chairs

- Trend towards Committee Chairs receiving additional cash (and equity-based) compensation, particularly Audit
- Premiums provided to Committee Chairs (excl. Audit) usually as additional annual retainer

Maximum	\$10,000
Median	\$ 2,000

- Premiums highest for Audit Chair – again usually as additional annual retainer

P25	P50	P75
\$5,000	\$9,000	\$15,000

- Our experience indicates that additional equity-based compensation is provided to Audit Chairs to *encourage* them to take on this significant responsibility

Estimated Total Compensation- Typical Director

- Typical Director
 - Attends 7 Board meetings
 - Has membership in 2 Committees (one as Chair)
 - Attends 3 meetings per Committee
- Assuming director paid median retainer (Board and Committee Chair) and median in-person meeting fees. Annual (theoretical) cash compensation is as follows:

Board retainer		\$8,000
Committee Chair retainer		2,000
Board meeting fees	7 x \$750	5,250
Committee meeting fees	6 x \$500	3,000
		<u>\$18,250</u>

This is approximately a maximum, since everything *additive*

- In addition, over a reasonable period of time, each director will likely receive stock (or stock options) in the range of 0.5 – 2.0% of issued and outstanding common stock.

3. Conclusions

- Compared to publicly-traded high tech companies (2004 presentation) this group had:
 - Lower cash compensation
 - Higher equity-based compensation
- Overall director compensation levels need to continue to *catch up* to appropriately reward value
- Value can still be assessed as
 - Equivalent to CFO rate of 1 day per week
 $\$150,000 \times 20\% = \$30,000$ plus options
 - Consulting 3 days per month at \$200 per hour (7 hours/day)
 $3 \times 12 \times \$1,400 = \$50,000$ cash with no options

4. The Future

- Compensation for directors will continue to increase
- Pressure will continue to provide some cash compensation
- Small cap companies – directors expected to have (at least) 1% ownership
- Continued pressure to better represent the interests of shareholders
 - act independent of management
- Need to carefully manage the process of review and approval of director pay to avoid appearance of *self dealing*