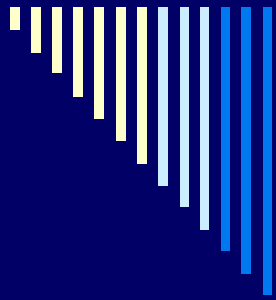


ICD/Venture Group
BC Directors Breakfast Club

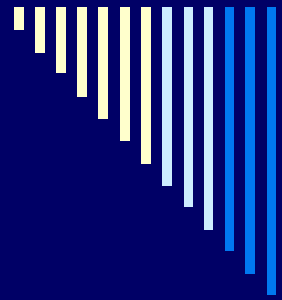
CEO & Director Compensation
Current Governance Challenges

Tuesday October 16, 2007
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1. CSA – Executive Compensation Disclosure



CSA – Executive Compensation Disclosure

- ◆ On March 29, 2007 the Canadian Securities Administrators (CSA) issued proposals for a new approach to the disclosure of both executive and director compensation
- ◆ The CSA outlined the proposals and asked a series of questions of interested parties



Summary of CSA Proposals

- ◆ Proposals somewhat based upon SEC USA new disclosure rules but (fortunately) more principles based
- ◆ Proposals to expand compensation disclosure in key areas:
 - A. Provide total compensation to Named Executive Officers (NEOs) to include salary, bonus, equity based awards, pension value, other
 - B. New Compensation Discussion and Analysis section (CD&A) to explain (in plain English) the rationale and justification for specific compensation programs for executives – including practices (targets) related to performance based compensation.



Summary of CSA Proposals (con't)

- C. Provide details of equity compensation on the basis of costs over the requisite service period as reflected in the company's financial statements
- D. Detailed proposals related to payment to NEOs upon retirement, termination without cause, termination upon change of control
- E. Disclosure of director total compensation, with summary table and equity disclosure similar to that required for NEOs



Proposed Reporting of Total Compensation for NEOs (last 3 years)

Cash Compensation

1. Salary
2. Bonus

Long-Term Incentives (dollar value – financial statements)

3. Stock Awards *
4. Option Awards *
5. Non-Equity Incentive Plan Compensation

*Details of stock and stock option awards provided to each NEO are still proposed in a separate table



Proposed Reporting of Total Compensation for NEOs (last 3 years) (con't)

Pensions & Benefits

6. Change in pension value

All Other Compensation

7. Perquisites, Personal Benefits *

Total Compensation

8. Sum of items 1 through 7

* If over \$50,000 or more than 10% of total cash compensation
Each individual perk more than 25% of total reported as footnote



Departure Benefits (each NEO)

- ◆ Departure defined to include resignation, severance, retirement, constructive dismissal, a change of control of the company or a change in a NEO's responsibilities
- ◆ Need to provide estimated lump sum, annual payments, benefits that NEOs would receive under various departure scenarios
- ◆ New requirement with potentially very complex reporting:
 - Many different types of departure
 - Circumstances triggering departure
 - Conditions (e.g. non compete, etc) to receive payment



Director Compensation

- ◆ New table of director compensation – to provide total compensation
- ◆ Proposed elements of compensation

Cash Compensation

1. Fees earned*

Long-Term Incentives **

3. Stock Awards
4. Option Awards
5. Non-Equity Incentive Plan Compensation

* Include retainer, meeting fees, premium for Committee Chair, etc – detail (as yet) not required

** Annual value and (as yet) no provision for reporting issuances in the year



Director Compensation (con't)

Pension & Benefits

5. Change in pension value
6. Other ***

Total Compensation

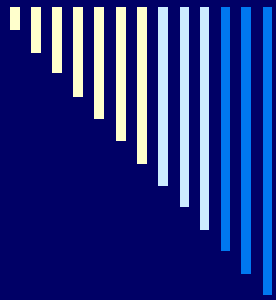
7. Sum of items 1 through 7

*** Other compensation includes donations to charitable institutions made by company in name of director. Each individual perk more than 25% of total reported as footnote.



Current Status of CSA Proposals

- ◆ CSA asked specific questions related to their proposals
- ◆ 41 organizations prepared comment letters
- ◆ August 31, 2007 CSA withdrew proposal and stated that previous (existing) rules for reporting for Financial Year 2007 will apply
- ◆ Indication that new rules (using – or not - modifications as suggested by 41 organizations) will be issued in early 2008



Commentary by 41 Organizations

- ◆ Comments, in the main, were provided by multi-billion dollar investment/pension organizations, large cap companies and international consulting firms

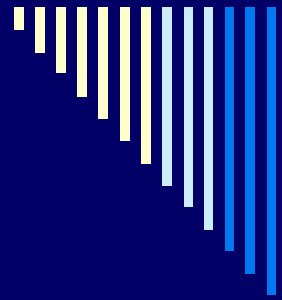
- ◆ Summary of comments were:
 - General support of the “*Principles Based*” approach to the disclosure of compensation

 - Multiple major criticisms (technical) related to the valuation (annual) of long-term incentives (concept of using accounting cost) and change in pension



Commentary by 41 Organizations (con't)

- Termination and change of control benefits – general agreement to provide, but need to lower number of types and associated complexities
- Agreement to a plain english CD&A, however concern that in disclosing compensation strategy and certain targets (not required for Venture listed companies) – this should not be required for competitively sensitive targets
- Agreement to improved disclosure (total compensation) of directors. Need to have breakdown (retainer, additional retainer Committee Chairs, meeting fees, etc) to justify differing levels between directors. Requirement for full disclosure of equity-based compensation not just accounting costs.



2. Implications for Governance of Executive & Director Pay



Implications for Governance of Executive/Director Pay

(A) Need for CD&A

- Compensation strategy in plain English
- Performance pay linkages
- SEC already critical of many recent US companies CD&As – not compliant

(B) Total Compensation Approach to NEOs

- Compensation strategy for executives and directors
- Review relative importance of each element of pay

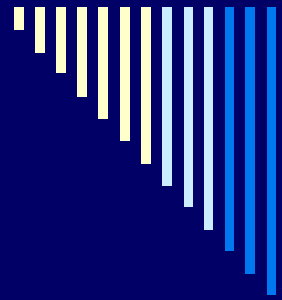
(C) Raised Awareness of Reward for Departure (Failure or Success)

- Total compensation level
- Reasonableness
- Different types & triggers for departure
- UK currently reducing this towards 1 years pay



Implications for Governance of Executive/Director Pay

- (D) Review of Director Total Compensation
- Compensation strategy
 - Relative importance of each element of pay
 - Justification and independence of review
- (E) Organization for Governance
- HR & Compensation Committee
 - HR/Compensation literacy
 - Governance Committee



3. Director Pay – Strategic Approach



Director Pay – A Strategic Approach

Best Practices

The National Association of Corporate Directors (NACD) has indicated the following best practices related to director pay:

- **Establish a process** by which directors can determine the compensation program in a deliberate objective way (minimize perception of “*self dealing*”)
- Define a **desirable total value** of all forms of compensation
- Pay (non executive directors) solely in the form of **equity and cash** with equity representing 50 – 100% of the total
- Set a target for **stock ownership** by each director and time period to meet target



Director Pay – A Strategic Approach

Recognize Issues re Supply and Demand

- ◆ Current shortage of qualified high calibre directors
- ◆ Impact of upcoming retirement of boomers
 - Reduce supply?
 - Increase supply (part-time employment)?
- ◆ Shortage of literacy in some areas



Example of Director Compensation Strategy – Small Cap Technology Company

- ◆ Applies only to **non executive directors**
- ◆ Reference will be made to a **comparator group** of similar sized small cap Canadian based technology companies (same as used to develop the executive compensation strategy)
- ◆ **Total rewards** will be based upon the top quartile of the comparator group adjusted upwards to be on the leading edge of the current upward trend in director pay
- ◆ Annual compensation will be provided in the form of **annual issuances of stock options** and **cash compensation** with more emphasis upon the value of stock options
- ◆ Cash compensation will be provided in the form of **annual retainer** and **meeting fees** (for both Board & Committees)



Example of Director Compensation Strategy – Small Cap Technology Company (con't)

- ◆ **Additional compensation** will be paid for extra work (ad hoc Committees) and for additional accountabilities including Committee Chairs.
- ◆ To enhance Board retention and continuity, stock options will **normally vest** one third upfront and one third each year thereafter – for full vesting after 2 years. Exercise price will be stock price at date of issuance.
- ◆ **Newly appointed Board members** will receive an upfront issuance of options upon appointment at twice the annual rate to encourage attraction and early *“interest”* in stock value.
- ◆ Each director is expected to **hold stock** of the company to the value of 5 times annual retainer within 5 years of joining the Board



Director Compensation – Result of Strategy

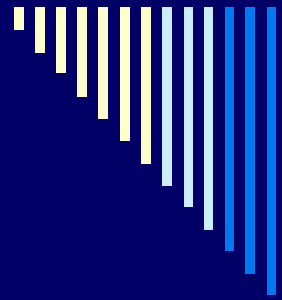
Board Member

Annual issuance of options	50,000 *
Annual retainer	\$20,000
Meeting fee (each Board & Committee)	\$ 1,500

Additional Roles

Chair, Audit Committee – additional retainer	\$10,000
Chair, Other Committees – additional retainer	\$ 5,000

* Average stock price (last 12 months) was \$2.50 so value of 50,000 options approximately \$42,000, which is more than estimate annual cash of \$35,000 (1 x annual retainer and 10 x meeting fees)



4. Reward for Departure



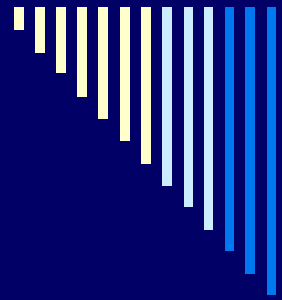
Reward for Departure

- ◆ New disclosure rules requirement to know the rewards for various departures. Knowing “*before the fact*” permits action
- ◆ Typical Canadian market practices for executives related to change of control:
 - Need to clearly define change of control
 - “*Single trigger*” not popular with Boards of Directors although still prevalent for CEOs
 - Termination pay typically 1-3 years (most prevalent 2 years). CEO typically highest.

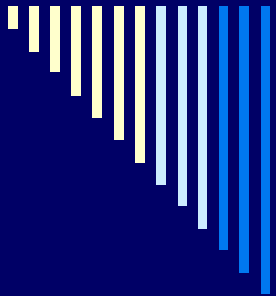


Reward for Departure (con't)

- Increasingly pay is defined as annual current salary, average annual bonus (last 2 – 3 years) and benefits (excluding vacation). Often value of benefits is calculated as lump sum payment
- Short tenure at a company should reduce termination pay
- Options vest upon change of control
- ◆ Increasing concern is that any termination provisions must be justified. Perception is that it is sometimes “*pay for failure*”
- ◆ Trend in the UK is to limit termination pay to 1 year and to eliminate single triggers in the case of change of control
- ◆ Expensive termination provisions difficult to justify in today’s marketplace – shortage of executive talent



5. Impact of Company Size & Stage of Development

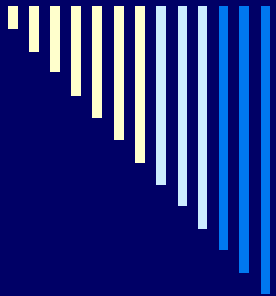


Impact of Company Size & Stage of Development Upon Compensation

A. Early Stage Private (Tech)

- Founder in place
- Hire CEO
- Independent Director

	CEO	Director
Total Cash	\$120 – 175k	Nil
Equity	5-10%	1-2%

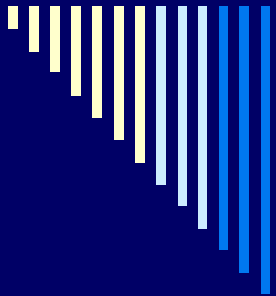


Impact of Company Size & Stage of Development Upon Compensation

B. Mid Stage Private (Tech)

- Organization in place
- Revenue building
- Careful cash
- Founder – now CTO or Board Chair

	CEO	VPs	Director
Salary/Retainer	\$150 -200k	\$120 -150k	\$5 – 10 k
Bonus/meeting fees	30%	20%	\$500 – 1,000
Equity	5%	2%	1%



Impact of Company Size & Stage of Development Upon Compensation

C. Later Stage Private/Publicly Traded (TSX-V)

- Revenues \$10 plus million per year
- Profitable, well financed

	CEO	VPs	Director
Salary/Retainer	\$200 - 300 k	\$150 -200 k	\$12 - 15 k
Bonus/meeting fees	30 – 40%	20 – 30%	\$1,000 – 1,500
Stock Option Awards			
• Annual value	\$200k +	\$ 50 -80 k	\$25 – 40 k
• Number *	300,000	75,000 – 120,000	40,000 - 60,000

Plus additional pay - Benefits/perquisites for executives
- Additional retainers for Committee Chairs

*Assumes \$2 exercise price and stock option capacity available