

# Long Island Business NEWS

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## SEATS OF POWER

A SPECIAL REPORT

They operate largely behind closed doors, collecting a full-time salary for, at most, half-time work, not to mention stock and such extra perks as travel.

Politicians? No, we're talking about corporate board members, those who exert tremendous influence on

company performance as the voice of shareholders.

But who are they? How do they get on these boards, and exactly how much are they paid? Over the next three weeks, LIBN will give you those answers and more in our exclusive series, Seats of Power.



# DIRECTOR'S CUT

## After Sarbox, greater responsibility, but much greater pay

**W**hen the parcel arrived at her office, Katherine Heaviside knew her weekend was essentially dead.

"My secretary would laugh because I would get a package of written stuff that weighs four pounds on a Friday afternoon and the board meeting was Tuesday," said Heaviside, president of Epoch 5 Communications in Huntington and

By  
**JEREMY  
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a member of North Fork Bancorp's board of directors. "I'd spend the weekend going through hundreds of pages."

The joy of being a corporate board member, Heaviside said, is that she gets to be involved in a completely foreign line of business. The downside: She gets to be involved in a completely foreign line of business.

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Illustration by Mike Albano

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# Cut: Risks and rewards

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"It's a mixed bag of whether I'm happy or unhappy," Heaviside said of her long weekends. "I actually sat there with my banking textbook."

It used to be that board membership came with a lot of privileges. Directors were often old friends of chief executives or cherished clients, lavished with easy money to spend a few hours in a board room a few times a year.

Times have changed. The Sarbanes-Oxley Act of 2002, activist shareholders, good-governance organizations and the media have thrust directors into the harsh light of greater transparency, their every move dissected and evaluated. Instead of worrying whether their hotels have fluffy towels, directors are worried about whether they'll do time for corporate wrongdoing, or whether their companies carry enough insurance to cover them if the inevitable shareholder lawsuits head south.

"It's no longer just 'show up and drink the coffee,'" said Heaviside, who earned \$75,000 in 2005 for her North Fork board work. "It's a real responsibility. With Sarbanes-Oxley, I could lose my home. I could lose everything I ever worked for."

much greater scrutiny. It has become a much more exacting job."

Yet the old perception of corporate boards persists. According to a recent Wall Street Journal/Harris Interactive survey, two-thirds of investors think directors are somewhat or not at all effective in governing companies. At the same time, a plurality of shareholders believes directors are more responsible than executives for a company's governance.

One sign that directors are playing a greater role is they are often paid what looks like a full-time employee's salary – and a well-paid employee at that. The median household income for a family of four in New York is \$69,000; in 2005, the average board member at Long Island's 10 biggest public companies was paid \$104,000, according to a Long Island Business News analysis of Securities and Exchange Commission documents.

Of the top 10 Island companies, Islandia software maker CA Inc. had the highest-paid board; the average member of the CA board took home \$189,000 in cash and stock in 2005. The cheapest board seat, on average, belonged to Pall Corp., an East Hills filter maker that paid the typical director a shade above \$63,000.

A director on the board of one of America's 350 largest public companies could expect to make \$164,000 per year, significantly more than the average at the Island's 10 biggest companies. The nation's highest-paying board, at San Diego wireless company Qualcomm, pays its directors more than \$500,000 in cash per year; there are notoriously stingy companies, too, such as Berkshire Hathaway, which pays its directors an average of \$10,800 each.

## Shouldering the burden

It's not just pay that's increased. Board membership frequently entails service on one or more committees, as well as supervising a company's auditors or compensation practices. The combination of full board meetings and committee meetings can easily require a board member to commit to 30 appearances per year.

Take Robert Chrenc, the non-executive chairman of Symbol Technologies Inc. who also serves as the chairman of the board's audit and corporate governance committees and as a member of the compensation committee. Chrenc, who was not available to comment, attended 51 Symbol-related meetings in person or by phone in 2005, according to filings with the Security and Exchange Commission, earning \$144,000 in the process.

"I do think, to a certain extent, that's what [directors] are signing up for," Rubin said. "If it's not, they probably need to rethink what they're doing. It's not a situation any more, particularly with well-known, well-regarded public companies, where a friend of the CEO joins the board because he's the friend of the CEO."

James Larocca, a member of the KeySpan Corp. board for most of the last 15 years, said his duties have grown markedly in the last half-decade. For every board or committee meeting he attends, he puts in two days' worth of background reading and preparation.

"We receive now a greater share of detailed information in formats that maybe did-



HEAVISIDE: A seat on North Fork Bancorp.'s board of directors has been a curse and a blessing, understanding of a foreign business.

n't exist in the old days," said Larocca, a former state energy commissioner who serves on the board's audit committee and attends 30 meetings per year. He earned \$141,500 in cash and stock in 2005. (Brooklyn-based KeySpan was not part of LIBN's analysis.)

Given the enormity of its governance and accounting problems, CA is an extreme case, but it nonetheless provides a neat snapshot of recent overhauls of board governance activity nationwide.

Before the passage of Sarbanes-Oxley –

and before the company entered into a deferred prosecution agreement with federal prosecutors – the former Computer Associates paid its board members a little more than \$40,000 per year. Board members now receive an annual retainer of \$175,000 and, typical in corporate America, committee chairs each earn additional compensation ranging from \$10,000 to \$25,000 per year.

The drastic pay increases reflect the greater burden these board members must shoulder, Hodgson said, although a decent

| RANKED BY                 |             |
|---------------------------|-------------|
| TOTAL BOARD COMPENSATION  |             |
| Company                   | Total       |
| CA Inc.                   | \$1,892,000 |
| Cablevision Systems Corp. | \$1,428,000 |
| Arrow Electronics         | \$1,426,000 |
| New York Community Bank   | \$1,383,000 |
| North Fork Bancorp        | \$794,500   |
| Reckson Associates Realty | \$642,500   |
| Pall Corp.                | \$631,250   |
| Symbol Technologies       | \$580,000   |
| Henry Schein Inc.         | \$493,500   |
| Kimco Realty Corp.        | \$386,000   |

Source: Securities and Exchange Commission

## The price of plums

Board positions were once "a feather in the cap," said Seth Rubin, a partner in the corporate practice of Ruskin Moscou Faltishek in Uniondale who also referred to the positions as "plums."

"It's something akin to that now, in that people find it prestigious," Rubin noted, "but there is a whole lot more responsibility that goes into the position than ever before."

Paul Hodgson, a senior research associate at the Corporate Library, a watchdog that rates board directors' performance, said while the "old club" atmosphere isn't entirely gone, it's definitely disappearing. "It isn't just because of Sarbanes-Oxley," Hodgson said. "It's because the actions of directors are under

## Perks of the job

Board membership comes with privileges. Here's a sampling of what you can get by serving as a director on one of Long Island's 10 biggest public companies.

### Cablevision



Every board member is entitled to a free Cablevision "triple play" of cable TV, phone and high-speed Internet service. If board members live outside of the Cablevision footprint (and many do), they get to charge an equivalent service to Cablevision.

### New York Community Bancorp

Board directors get to take part in a low-cost life insurance plan.

### CA Inc.

The company's non-executive chairman, Lewis Ranieri, took home an additional \$160,000 in 2005 for extraordinary service, according to regulatory filings. Ranieri took payment in the form of ready access to CA's corporate jet.





Bob Giglione

with long, study-filled weekends and a new

used to be," she said.

That also means directors who join boards most likely take their responsibility more seriously. "You've got that higher commitment and devotion to the board," Westcott said.

The pressure on many Long Island company directors has been ratcheted up considerably in the last 18 months. Cablevision, Reckson Associates Realty Corp., Symbol Technologies and North Fork Bank are all in the process of being sold in management-led buy-outs or friendly takeovers, and in these situations, boards form special committees to evaluate the bids for shareholders.

"It always entails a higher level of involvement," Larocca said, referring to KeySpan's long list of recent merger activity, culminating in its pending sale to British utility National Grid Plc. "The intensity and frequency of meetings go way up."

### Leveling out

To paraphrase Spider-Man's credo, with greater responsibility comes greater pay.

During the first four years after the passage of Sarbanes-Oxley in 2002, directors' pay increased by 50 percent, according to a Mercer Human Resources Consulting study cited by Corporate Board Member magazine. In an effort to better align directors' interests with shareholders, board members are often required to own a sizeable chunk of company stock, although that often forms part of the standard pay package.

The upward trend in pay cooled off considerably in the last year, however, indicative of the increasing microscopic scrutiny placed on the compensation of everyone in the upper echelons of corporate management. Last year, shareholders gave their boards of directors an average pay raise of 6.1 percent, according to the Mercer Human Resources Consulting survey.

In fact, non-director executive compensation has become the No. 1 issue for good-governance groups such as Institutional Shareholder Services and the Corporate Library. "Compensation is the biggest indicator of oversight problems," Westcott said, and if pay is out of whack, it usually means a board is too cozy with management or asleep at the wheel.

This year, for example, PROXY Governance recommended that Cablevision shareholders withhold votes for the all three directors who serve on the board's compensation committee. Cablevision paid its chief execu-

tive, James Dolan, 51 percent more than its peers paid their CEOs, while other Cablevision executives earned 151 percent more than counterparts at peer companies, according to PROXY Governance.

PROXY Governance made the same recommendation for members of North Fork Bank's compensation committee, since CEO John Kanas is slated to land one of the largest single paydays in corporate history — \$185 million — with his bank's sale to Capital One.

| RANKED BY                     |           |  |
|-------------------------------|-----------|--|
| HIGHEST COMPENSATED DIRECTORS |           |  |
| Company                       | High      |  |
| Arrow Electronics             | \$326,000 | Daniel W. Duval, Lead Director           |
| CA Inc.                       | \$272,000 | Lewis Ranieri, Chairman                  |
| Cablevision Systems Corp.     | \$162,000 | Richard Hochman                          |
| Symbol Technologies           | \$144,000 | Robert J. Chrenc, Non-Executive Chairman |
| Reckson Associates Realty     | \$124,500 | Peter Quick, Lead Director               |
| New York Community Bank       | \$117,500 | Robert S. Farrell, Michael Levine        |
| North Fork Bankcorp           | \$96,000  | Max L. Kupferberg                        |
| Pall Corp.                    | \$95,000  | Raymond A. Nielsen                       |
| Kimco Realty Corp.            | \$90,000  | Daniel J. Carroll Jr., Lead Director     |
| Henry Schein Inc.             | \$80,000  | Richard G. Dooley, Lead Director         |
|                               |           | Barry J. Alperin                         |



Daniel Duval



Lewis Ranieri

Source: Securities and Exchange Commission

### The spirit of independence

Shareholder advisors examine executive compensation because, from a governance perspective, it's sometimes all they have to go on, aside from stock price. Boards exist to represent the interests of shareholders at the highest levels of management, but operate in a virtual black box for investors, Westcott said. Share-

holders routinely go through management to talk to directors, a simultaneous representation and separation that can cause tension.

Board members are also tight-lipped with the media. Aside from Heaviside, attempts to contact other board members in LIBN's compensation analysis through the public companies they represent were rebuffed or ignored.

Executives at those companies also refused to comment for this story.

To provide some reassurance, Sarbanes-Oxley and the major trading platforms have required a greater level of independence for board members. Few Island companies have more than one or two executives serving on boards, and many, like Melville-based Arrow Electronics and Uniondale-based Reckson Associates, have appointed lead directors who can conduct meetings without management present.

Audit committees frequently get reports directly from outside accountants before management sees the reports, and nominating committees — almost always comprised of non-executive board members — select the next generation of directors.

"The board has a dual role," Hodgson said. "It is the mouthpiece of the shareholder and it should be, if it's put together properly, important for long-term strategy."

In this spirit of independence, companies must also disclose any financial entanglements linking directors to corporate operations. PROXY Governance, for instance, takes a dim view of one Cablevision board member, Charles Ferris, whose law firm includes Cablevision as a client.

In general, the appearance of a conflict of interest merits a recommendation to vote against a board member, Hodgson said. Still, the SEC and other regulatory bodies can demand only so much transparency, leaving most shareholders in the dark, Westcott said.

Corporations, for instance, don't have to disclose in an SEC filing whether a board member plays golf or dines with the CEO, Westcott noted.

"Without getting into the boardroom, you don't really know how independent these board members are," she said. "As a shareholder, you can't really see who's on the ball and who's lackluster."

**NEXT WEEK:**  
Holding too many director's seats can stretch an executive too thin. Maybe that's why it's called "overboarding."

## Hard to handle: Assembling the compensation jigsaw puzzle

Figuring out just how much public company board members make each year requires no small amount of mathematical jujitsu.

Unlike pay disclosures for executives, very few public companies state clearly in their proxy filings how much board members make each year. Instead, scattered throughout the filing are various pieces of the puzzle.

Board members are entitled to an annual retainer. They also make a certain amount every time they attend a full board meeting, typically about \$2,000. They usually make slightly less money to show up for a committee meeting, say \$1,500. Elsewhere in the filing, the company will usually state who's on the board, who serves on which committees and how many times the full board and each of the committees met.

Directors usually make less money per meeting if they attend by phone, often around \$500, although companies

never say how many directors attend meetings by phone. Companies generally don't disclose how many of the meetings directors attend, either in person or by phone. Corporations are only required to say whether directors attended at least 75 percent of board and committee meetings.

If a director happens to be the chairman of a committee, the board member earns a little bit more for committee work. Directors typically earn even more for leading the board's audit committee, since that's considered to be among the most demanding jobs. Lead directors, a relatively new concept in corporate governance, also take home a sizeable bonus.

Proxy statements also say whether directors are entitled to annual stock grants. Sometimes those grants come in the form of stock options, however, and it's rarely made clear how much those options are worth.

All this is going to change with next year's proxy state-

ments, though. The Securities and Exchange Commission has instituted new rules requiring companies to provide far greater transparency for executive and director pay.

Alon Kapen, a securities attorney and partner with Farrell Fritz in Uniondale, said there will be a "tabular presentation" for each director in proxy statements, laying out exactly how much that director made in the previous year. If, as is common, some directors made the same amount of money, they can be lumped into one category, Kapen said.

Along with the tabular presentation, companies will have to provide a narrative component describing how the pay was accumulated. It will list, for instance, all of the previously scattered pieces of the compensation puzzle, such as the annual retainer and per-meeting fee.

"The SEC's opinion is, 'Let's get as much information to shareholders as possible,'" Kapen said.

— JEREMY HARRELL