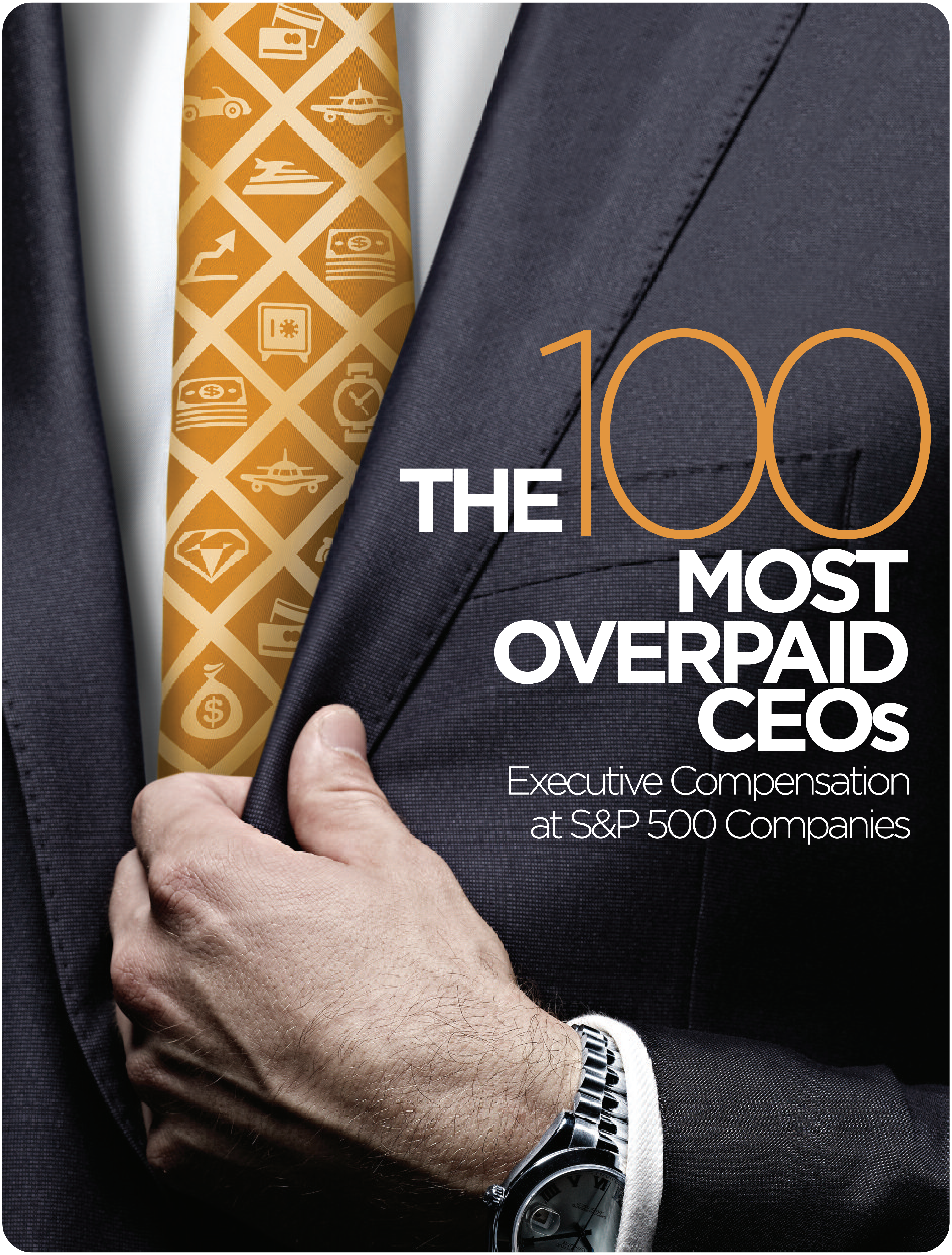

THE 100 MOST OVERPAID CEOs

Executive Compensation at S&P 500 Companies

AUTHOR

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Rosanna has been working in the governance and compensation fields since 1992. She began her work in governance with a position in the Corporate Affairs office at the International Brotherhood of Teamsters, supervising research on corporate governance and management practices. She joined the Investor Responsibility Research Center (IRRC) in 1999 and served as an expert on labor shareholder activism, writing reports on labor fund activism, executive compensation shareholder proposals and golden parachutes. At Institutional Shareholder Services (ISS), she worked on the executive compensation team as a senior analyst until 2010, with a particular focus on change of control packages, and analyzed say-on-pay resolutions. From 2010 to 2012 she was governance initiatives coordinator at Change to Win. Rosanna holds a BA in English from Goshen College and a Masters in American Studies from the University of Notre Dame.

ACKNOWLEDGEMENTS

This report was made possible by the generous support of the Stephen Silberstein Foundation. Additional support was provided by the Arntz Family Foundation, The Fred Gellert Family Foundation, Firedoll Foundation, The Libra Foundation, New Belgium Family Foundation, Roddenberry Foundation, and Singing Field Foundation.

The creation of the methodology over the course of several months was informed by conversations with many experts in the field. This report has also benefited from the input of outside reviewers. They include (in alphabetical order by last name with affiliations for identification purposes only): Sarah Anderson, Institute for Policy Study; Michael Dorff, Southwestern Law School; R. Paul Herman, HIP Investor; Susan Holmberg, Roosevelt Institute; John Keenan, AFSCME; Nell Minow; Larry Mishel, Economic Policy Institute; Monique Morrissey, Economic Policy Institute; Michael Pryce-Jones, CtW Investment Group; Sam Pizzigati, Institute for Policy Studies; Steve O'Byrne, Shareholder Value Advisors; Larisa Ruoff, The Sustainability Group; Steve Silberstein; Mark Van Clieaf, Organizational Capital Partners; Dana Wise, CtW Investment Group; Scott Zdrazil, Amalgamated Bank.

Special thanks to:

- HIP Investor conducted a regression analysis upon which a key component of this report rests and provided measures used in the sustainability section of the report. Auros Harman, Senior Vice President, Technology and Analysis, and HIP Investor Founder and CEO R. Paul Herman, were extraordinarily helpful and responsive throughout the process. HIP Investor serves investors, advisers, fund managers and retirement plans with more than 8,500 ratings of investments globally, covering all asset classes including stocks, bonds, munis, real estate, and venture capital.
- The mutual fund section of report was based on data provided by Fund Votes, an independent project started in 2004 by Jackie Cook (CookESG Research). Fund Votes tracks institutional proxy voting, and Jackie Cook's knowledge of mutual fund families, voting practices, and the vagaries of Excel is without peer.
- Mark Van Clieaf and Steve O'Byrne, the authors of "The Alignment Gap Between Creating Value, Performance Measurement, and Long-Term Incentive Design," a study commissioned by the Investor Responsibility Research Center Institute (IRRCi), shared with us useful data gathered in the course of that research as well as in earlier projects.
- William Lazonick for his work on buybacks, as published by the Roosevelt Institute and in other formats, which was of critical importance to our analysis. We are grateful for the time Professor Lazonick took to speak with us, as well as the data he provided from work done by Mustafa Erdem Sakinç of the Academic Industry Research Network (www.theAIRnet.org).
- CtW Investment Group and AFSCME were also exceptionally helpful in providing data for the report.

Thanks also to the additional professionals from industry and other sectors who provided reviews. Any errors or omissions are solely the responsibility of the authors.

We would also like to thank As You Sow staff Kathryn Levitt, Andrew Montes, and Andrew Behar as well as consultant Lauren Levenstein and intern Brittany Dawn Ly for their research and communications support.

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EXECUTIVE SUMMARY

CEO pay grew an astounding 937% over the past 35 years. The explosion in executive compensation greatly outpaces growth in the stock market and economic productivity. Simply put, it is not good for the companies, the shareholders, the customers, the other employees, the economy, and society as a whole to keep putting more and more money in the hands of just a few people. It's also neither accurate nor wise to attribute the performance of an entire corporation, with its tens or hundreds of thousands of employees, to just a few executives.

The system in place to govern corporations has failed in the area of executive compensation. Like all the best governance systems, corporate governance relied on a balance of powers. That system envisioned directors representing shareholders, and guarding the company's assets from waste. In other words, in expected negotiations over pay, it is the job of director to ensure that CEOs are not paid more than is required for their services. Too often directors have deferred to compensation consultants and approved packages not in the interests of shareholders.

The governance system came from a time when it was assumed that unhappy investors would simply sell their stakes if sufficiently dissatisfied with the governance of a company. However, today more and more investors own shares through mutual funds, often investing in S&P 500 index funds. The pay packages analyzed in this report are the companies that the majority of retirement funds are invested in. Today, those casting the votes on the behalf of shareholders frequently do not represent the shareholders' interests.

> The pay packages analyzed in this report are the companies that the majority of retirement funds are invested in.

CEO compensation as it is currently structured does not work. Too often it rewards deals above development and risk rather than return on invested capital (ROIC). As noted in the *Financial Crisis Inquiry Report*, "Those [compensation] systems encouraged the big bet—where the payoff on the upside could be huge and the downside limited. This was the case up and down the line—from the corporate boardroom to the mortgage broker on the street."[1] We note that the downside, which could include such features as environmental costs, may be limited for the individual, but is borne by the larger society.

Paying one individual with wealth beyond reason creates a false narrative that such compensation is justified and earned. Confusing disclosure coupled with inappropriate comparisons are then used to justify similar packages elsewhere. These systems perpetuate and exaggerate the destabilizing effects of income inequality, and may contribute to the stagnating pay of front-line employees.

The task we set before ourselves in writing this report was to identify the 100 most overpaid CEOs in the S&P 500, to analyze how mutual funds and pension funds voted on these pay packages, and to consider the directors who serve on the compensation committees of these boards. In undertaking the project we focused not just on the absolute dollars but also on those practices we believe have contributed to bloated compensation packages. The comprehensive review included items never used in such an analysis before. For example, we looked at companies that gave very large options grants at the bottom of the market. In many such cases stock has increased in value dramatically not due to the individual efforts of the CEO but to the economic recovery. Some compensation committees appear to have considered such potential windfalls as they made on-going award decisions, but others have not, and in one case, a compensation committee suggested that it "believes that reducing or limiting current stock option grants . . . because of prior gains realized by an executive officer" who in this case had reaped over $100 million from options granted near the bottom of the market "would . . . reduce the motivation for continued high achievement."

Shareholders now have the right, since the enactment of Dodd-Frank, to cast an advisory vote on compensation packages. In response to excessive and problematic CEO pay packages, they should vote against these plans and withhold votes for the members of the board's compensation committee who created and approved these bloated plans. In some cases, institutional investors should request meetings with members of the compensation committees to express their concerns. Institutional investors should be prepared to explain their votes on pay to their customers, and individuals should hold their mutual funds accountable for such decisions.

KEY FINDINGS

- **There is consensus on the worst actors: two different models were used to analyze pay—one statistical and one that is a comprehensive analysis of data points—and both largely agreed on the worst offenders.** The first 11 companies listed below appeared on the top 25 generated by both methods. The statistical analyses, which used financial performance measures to identify pay based on performance, and determined an amount in excess of that prediction, showed similar results over various financial ratios and time periods, and are likely similar to those performed by proxy analyses firms. As You Sow also considers 30 other factors, generally ranking companies and giving red flags to those that exceeded a certain threshold.
- **The most overpaid CEOs represent an extraordinary misallocation of assets.** Regression analysis showed each of the top nine most overpaid had compensation at least $20 million more than if their pay had been appropriately aligned with performance. This understates the true cost to shareholders, because at the start point of the regression analysis, five years ago, the escalation of compensation packages was well advanced.
- **There is a tremendous range in mutual fund focus and voting on this issue.** Of the largest mutual funds, American and Schwab approved less than 60% of these packages, while Blackrock supported 95% of them. Some funds seem to routinely rubber-stamp management pay practices, enabling the worst offenders and failing in their fiduciary duty. One surprise: TIAA-CREF—the leading retirement provider for teachers and college professors—is more likely to approve high pay packages than almost any other institution its size.
- **Directors who should be acting as the stewards of shareholder interests have too often compromised on that responsibility, and need to be held accountable.** We list the companies that over-paying directors serve on, and identify 17 individuals who serve on two or more "overpaid" S&P 500 compensation committees. We identify one director who was paid more than $1 million to serve on compensation committees in FY 2013.

FIGURE 1 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	Nabors Industries Ltd.	Anthony G. Petrello	$68,246,187
2	Oracle Corporation	Lawrence J. Ellison	$78,440,657
3	Freeport-McMoRan Copper & Gold Inc.	Richard C. Adkerson	$55,260,539
4	CBS Corporation	Leslie Moonves	$66,932,581
5	Discovery Communications, Inc.	David M. Zaslav	$33,349,798
6	The Walt Disney Company	Robert A. Iger	$34,321,055
7	CVS Caremark Corporation	Larry J. Merlo	$31,330,162
8	Viacom, Inc.	Philippe P. Dauman	$37,186,099
9	Regeneron Pharmaceuticals, Inc.	Leonard S. Schleifer, M.D., Ph.D.	$36,272,665
10	McKesson Corporation	John H. Hammergren	$25,919,882
11	Ralph Lauren Corporation	Ralph Lauren	$24,537,936
12	Salesforce.com, Inc.	Marc Benioff	$31,333,332
13	Exxon Mobil Corporation	Rex W. Tillerson	$28,138,329
14	The Estée Lauder Companies Inc.	Fabrizio Freda	$31,598,679
15	Chesapeake Energy Corporation	Robert D. Lawler	$22,423,367
16	Aetna Inc.	Mark T. Bertolini	$30,725,409
17	Ford Motor Co.	Alan Mulally	$23,204,534
18	Hasbro Inc.	Brian Goldner	$27,440,726
19	American Express Company	Kenneth I. Chenault	$21,837,420
20	Chipotle Mexican Grill, Inc.	Steve Ells	$25,116,871
21	Comcast Corporation	Brian L. Roberts	$31,367,254
22	General Growth Properties, Inc.	Sandeep Mathrani	$22,102,608
23	AT&T, Inc.	Randall Stephenson	$23,247,167
24	Honeywell International Inc.	David M. Cote	$25,973,246
25	Abbott Laboratories	Miles D. White	$20,865,668

This report has a strong focus on mutual fund voting data, which is required to be disclosed annually. The pay packages evaluated were those upon which votes were cast prior to June 30, 2014, with compensation data based on the named CEO in the company's proxy statement at that time. We note that some CEOs changed during the period under evaluation – for example, had Walmart's 2014 package been evaluated based on the incoming CEO rather than the outgoing CEO, the company would have appeared in the list of the Top 25 Most Overpaid CEOs.

INTRODUCTION

CEO pay is a core contributor to America's extreme and growing income inequality. The Economic Policy Institute notes that over the period of 1978 to 2013, the inflation-adjusted pay of a typical worker grew by about 0.4% a year (a total of 10% over 35 years) while the pay of a typical CEO grew almost a hundred-fold. **This growth in CEO pay of 937% over a 35-year period greatly outpaces growth in the cost of living, the productivity of the economy, and the stock market.**[2]

In order to hide the true cost to the company, its shareholders, and the economy as a whole of ever increasing CEO pay, and to reduce the taxes both the company and the CEO might otherwise have to pay, CEO pay has come to be structured in overly-complex ways, with all kinds of currencies (e.g. stock awards and options) and false justifications, like so-called "performance" awards and measures. Numerous studies have shown that there is virtually no correlation whatsoever between the pay of a CEO and the performance of a company. Indeed, it has been argued that the structure of many CEO pay packages actually incentivize bad decisions and bad behavior, so much so that shareholders have begun to insist that CEO pay packages include "clawback" provisions to force the CEO to return all or part of their pay when bad decisions are discovered.

Most CEOs have come to be grossly overpaid, and that overpayment is harmful to the companies, the shareholders, the customers, the other employees, the economy, and society as a whole. Simply put, it is not good for economic growth to keep putting more and more money in the hands of just a few people. It's also neither accurate nor wise to attribute the performance of an entire corporation, with its tens or hundreds of thousands of employees, to just one or two people.

Most CEOs have come to be grossly overpaid, and that overpayment is harmful to the companies, the shareholders, the customers, the other employees, the economy, and society as a whole.

In order to bring the problem of excessive CEO pay into focus, this report analyzes the CEO pay packages at the nation's top 500 corporations (as determined by the S&P 500 list), and identifies the top 100 most overpaid—the worst 20%. Since shareholders now have the opportunity to cast an advisory vote on these pay packages as a result of the Dodd-Frank financial reform act, they may want to consider expressing their concern that these pay packages are not only excessive, but also not in their personal financial interests.

We also analyze how some of the largest investors in these companies, namely mutual funds and public pension funds, have voted their shares on this matter, and thus which ones are properly exercising their fiduciary responsibility, and which are just acquiescing in this squandering of company resources.

Directors designated to be the stewards of shareholders' interests have too often compromised on that responsibility, particularly when it comes to compensation. This report provides information and insight on the compensation committee directors who serve at the companies with the worst overpay problems, and some who serve on compensation committees of several companies with CEO pay issues.

Finally, the report concludes with detailed information on our methodology and the factors we considered when analyzing the CEO pay packages.

As You Sow believes that now is the time for shareholders, particularly those with fiduciary responsibilities, to become more engaged in their analysis of executive pay and those who award these packages. The top 100 most overpaid CEOs deserve more scrutiny.

THE 100 MOST OVERPAID CEOs

As You Sow begins with a forthright acknowledgement of our belief that many S&P 500 CEOs are overpaid in comparison to the pay of CEOs of large complex European, Canadian, Australian, and Japanese companies. Thus our clear focus is on the "most overpaid" executives at companies where we believe pay is too high (above peers, taking higher and higher share of company profits), particularly in light of performance considerations.

The current system of executive pay distorts incentives, leading to a short-term focus rather than sustainable growth. Executive pay may represent, and in some cases encourage, a poor allocation of resources. It is often structured in such a way that it encourages short-term focus, rewarding executives that extract profit by acting in ways that harm employees, the environment, and often the consumer. Finally, excessive packages contribute to the destabilizing effects of income inequality, and make consumers and employees wonder if they are playing in a game rigged against them.

To complete this study, we purchased data from Institutional Shareholder Services (ISS), Glass Lewis, and HIP Investor. As noted in the acknowledgements, several academics and investors were also generous with data and insight.

HIP Investor ran several statistical analyses of the S&P 500 as of June 30, 2014, using two types of factors—financial performance and executive pay. These analyses identified a best-fit line for predicting pay based on performance. This prediction is compared to actual pay, to see how much the package exceeded such a prediction. Those with highest excess were then ranked in order of the excess.

The financial performance measure we ultimately chose was five-year Total Shareholder Return (TSR). We chose TSR because we come from the perspective of shareholders and this is the best commonly accepted measure to evaluate company performance used by shareholders.

As noted more fully in the methodology section, we do not believe that TSR is necessarily an appropriate compensation metric under which to reward CEO performance as we do not believe the CEO is a primary driver of stock price. Numerous academic studies (detailed most recently in Michael Dorff's *Indispensable and Other Myths: Why the CEO Pay Experiment Failed and How to Fix It*) show there is little alignment between pay and stock performance, and too often CEOs have received windfalls based on purely external factors. Yet, it is the delivery of wealth to stockholders that is used by CEOs, boards, and compensation consultants as the primary justification for high pay. In this study, while disputing that validity of that alignment, we focus on CEOs of companies that would be overpaid even if that assumption were true.

We began this report with conversations with a variety of experts to identify quantitative data points under which companies could be measured and ranked. The data was gathered from a number of sources and grouped into categories:

- Pay and performance: issues with incentive and equity pay
- Promoters of the upward spiral: companies with practices that contribute to inflationary pay
- High executive pay at the expense of long-term company sustainability
- Other expert evaluations: the consensus of concern

Over 30 variables were identified and analyzed under this process (others were considered and not used). On most variables, simple rankings were performed and those ranked in the bottom 20% of the S&P 500 received a red flag. Some data points were calculated differently and those are described more fully as each item is discussed. Companies were then ranked by the total aggregate flags, with the top 100 having scores ranging from five to 18 red flags. (There were 200 companies in the S&P 500 that had three or fewer flags.)

The two lists—one created with a statistical analysis, and another with broader considerations—were each weighted at 50% to create the final listing above.

The majority of data based on proxy statement disclosure was gathered through a subscription to ISS's ExecComp Analytics.

Here's an example of how the calculation works: During the five years ending December 31, 2013, shareholders in the energy company Nabors Industries suffered net losses of nearly 21%. If pay were linked to this indicator of performance through a simple linear relationship, the CEO's pay for the financial year ending in 2013 would have been roughly $11.2 million. Instead it was more than $68.2 million. In other words, he received some $57 million in excess pay during this period. At the same time, Nabors received 18 separate red flags under As You Sow's analysis, including one for the fact that CEO Anthony Petrello received a bonus based on his employment contract rather than company performance; and an additional one-time payment of $45 million upon the termination of his employment agreement. ISS ranked the company as being paid above peers, and As You Sow found that Nabors was at the bottom fifth of five-year TSR, and the top fifth of total annual incentive pay. Nabors and Freeport-McMoRan were the two companies that received the maximum number of red flags when we looked at how other parties evaluated them (ISS, Glass Lewis, GMI, an academic study, and shareholder votes.)

Another example is General Growth Properties: During the five years ending December 31, 2013, shareholders suffered net losses of nearly 3.76%. If pay were linked to this indicator of performance through a simple linear relationship, the CEO's pay for the financial year ending in 2013 would have been roughly $11.6 million. Instead it was more than $22 million. In other words, he received nearly $10 million in excess pay during this period. He also received several red flags under As You Sow's methodology, including for the fact that he received over $500,000 in all other pay (including $480,000 in dividends on restricted stock), a significant increase in non-performance based pay. Using ISS data General Growth was one of the worst 100 companies in terms of compensation as percent of revenue, rank of CEO to next highest paid, and ratio of CEO to peer median, each item of which also earned the company a red flag.

Several of the companies listed below are long-standing outliers, and a few have taken some steps to address this status. At Nabors, two directors have been removed from the compensation committee, and the company made other governance changes. Freeport-McMoRan has cut salary in half for Executive Chairman James Moffett. James Flores, CEO of FCX's oil and gas unit had his compensation reduced from $2.5 million to $1.25 million.[3] In one case, the CEO in question has announced his departure from the company.[4] There are companies who have already issued their proxy statement for the 2014 fiscal year. As noted above, that information was not included in this report due to focus on mutual fund voting and the timing of disclosure requirements. We note, for example, that the total disclosed compensation for Estée Lauder CEO in 2014 was reduced by more than half from the figure cited in the chart.

FIGURE 2 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	Nabors Industries Ltd.	Anthony G. Petrello	$68,246,187
2	Oracle Corporation	Lawrence J. Ellison	$78,440,657
3	Freeport-McMoRan Copper & Gold Inc.	Richard C. Adkerson	$55,260,539
4	CBS Corporation	Leslie Moonves	$66,932,581
5	Discovery Communications, Inc.	David M. Zaslav	$33,349,798
6	The Walt Disney Company	Robert A. Iger	$34,321,055
7	CVS Caremark Corporation	Larry J. Merlo	$31,330,162
8	Viacom, Inc.	Philippe P. Dauman	$37,186,099
9	Regeneron Pharmaceuticals, Inc.	Leonard S. Schleifer, M.D., Ph.D.	$36,272,665
10	McKesson Corporation	John H. Hammergren	$25,919,882
11	Ralph Lauren Corporation	Ralph Lauren	$24,537,936
12	Salesforce.com, Inc.	Marc Benioff	$31,333,332
13	Exxon Mobil Corporation	Rex W. Tillerson	$28,138,329
14	The Estée Lauder Companies Inc.	Fabrizio Freda	$31,598,679
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16	Aetna Inc.	Mark T. Bertolini	$30,725,409
17	Ford Motor Co.	Alan Mulally	$23,204,534
18	Hasbro Inc.	Brian Goldner	$27,440,726
19	American Express Company	Kenneth I. Chenault	$21,837,420
20	Chipotle Mexican Grill, Inc.	Steve Ells	$25,116,871
21	Comcast Corporation	Brian L. Roberts	$31,367,254
22	General Growth Properties, Inc.	Sandeep Mathrani	$22,102,608
23	AT&T, Inc.	Randall Stephenson	$23,247,167
24	Honeywell International Inc.	David M. Cote	$25,973,246
25	Abbott Laboratories	Miles D. White	$20,865,668

See Appendix A for full data table of the 100 most overpaid CEOs.

SAY-ON-PAY

Since 2011, under provision 951, the say-on-pay provision of the Dodd-Frank Act, shareholders vote on compensation as presented in the company's annual proxy statement for the five named executive officers (NEOs).[5] This provision grew out of decades of shareholder activism at hundreds of companies demanding disclosure on CEO pay. In 2002, shareholders in United Kingdom companies won the right to a non-binding vote. In the United States, shareholder activists, including large pension funds, began to file shareholder resolutions calling for the same rights. These shareholder proposals gained traction through years of advocacy, with more than 50 of the proposals gaining majority support. Ultimately over 70 companies voluntarily adopted the proposal. Around the same time, the role that over-sized executive compensation incentive packages played in the 2008 financial meltdown also became evident. When President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into federal law on July 21, 2010 it included this provision.

The average level of support for say-on-pay proposals in 2014 was 90%, according to Towers Watson, the same as it had been in 2013.[6]

Even in technical defeat, say-on-pay can be remediating. The real test of say-on-pay is reform, not simply a majority vote. As SEC Commissioner Luis Aguilar observed, say-on-pay has increased communication between issuers and shareholders and resulted in positive changes to many companies' executive pay practices.

Shareholders have had some success at persuading companies to adopt better pay practices. A Towers Watson study noted that in 2013 a significant number of companies made changes after their annual say-on-pay vote failed to garner majority support.[7] Among the changes: 44% have added a clawback provision to allow a company the possibility of reclaiming compensation in limited cases, and similar percentages have adjusted their compensation mix (i.e. what percentage stock vs. cash, short-term vs. long term) or included more rigorous metrics. Other actions taken have included adding a hedging and/or pledging policy, adding or amending stock ownership guidelines, making peer group changes, or adding new performance-based awards.

Large institutional shareholders frequently rely on proxy advisors to evaluate pay packages. These advisors, led by Institutional Shareholder Services (ISS) and Glass Lewis, conduct evaluations of companies related to peers and some other factors. In some cases they highlight areas of concern and yet still issue recommendations of support.

While we believe that proxy advisors have generally been too inclined to recommend support of unreasonably large pay packages, their policies have resulted in some changes in practices. One example: a once common policy, the tax gross-up, is disappearing. Under this practice, shareholders often bore the cost of the tax fees incurred when executives leaving a company received "golden parachute" severance. Besides fronting the cost of the executives' taxes, companies lost a significant tax deduction in these cases, for no justifiable shareholder-based reason. Once advisors began citing these gross-ups as a reason they were recommending voting against an entire pay package, the practice quickly faded. While some such practices have been reduced, however, the fundamental issues remain the same and the average level of support is generally above 90%.

MUTUAL FUND VOTES

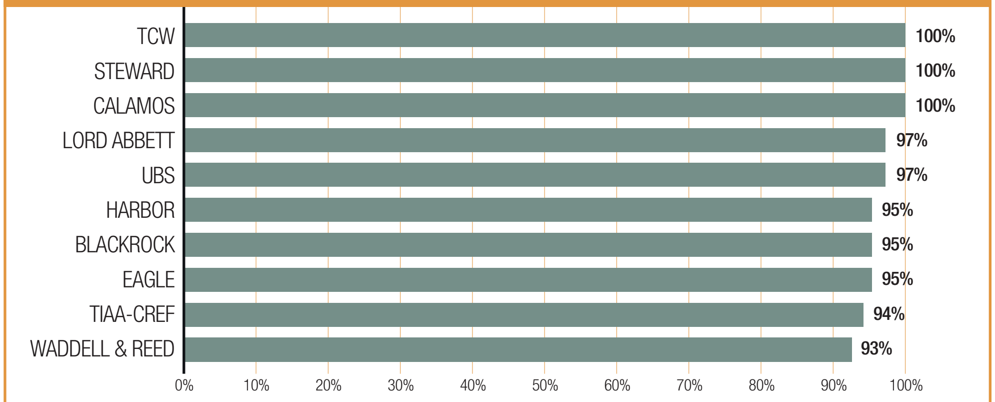
Mutual funds hold 25% of US equities. Yet time and time again, the largest funds act as rubber stamps. As detailed below, mutual funds—some more than others—tend to support compensation packages fairly routinely.

This happens in part because of the complicated nexus of self-interest at mutual funds that manage billions in corporate pension and 401(k) plans. At large companies in particular, the fund may have a potential client relationship with the company whose shares they are voting. A 2005 study shows that the more a fund family relies on pension and 401(k) business, the more management friendly these funds are:[8]

> *"A shareholder vote—even if advisory—represents an opportunity to introduce a new voice, breaking the self-reinforcing cycle in which board, executives, and consultants give one another the same, affirmative message on how they are handling CEO pay. The way to collapse a social cascade or to disrupt a groupthink dynamic is to break in with new information, with a strong, dissenting voice."*
>
> *- Michael B. Dorff, Professor of Law, Southwestern Law School, Indispensable and Other Myths: Why the CEO Pay Experiment Failed and How to Fix it*[9]

Yet even in cases where there is a great deal of agreement on the state of the problem some mutual funds continue to vote in favor of the proposals. In May 2014, shareholders of Chipotle Mexican Grill Inc. opposed the company's CEO compensation package by 77% (23% supporting) in a say-on-pay referendum.[10] Shareholders and pension funds called the compensation "excessive" and "egregious." According to Reuters, of Russell 3000 companies that had votes on executive pay packages in 2014, the next-lowest percentage of support for CEO pay was 27% at Broadsoft Inc.[11] The vast majority of mutual funds voted against the say-on-pay proposal at Chipotle (55 of the 71 fund groups that reported votes on this resolution). There were eight fund families that had a split vote with some cast for and others against. Eight fund groups surveyed voted all their shares in favor of the say-on-pay proposal at Chipotle: Artisan, Berkshire, Federated, Harbor, Lord Abbett, Steward, TIAA-CREF, and Waddell & Reed.

FIGURE 3 – MUTUAL FUND FAMILIES MOST LIKELY TO APPROVE PAY OF 100 MOST OVERPAID CEOs

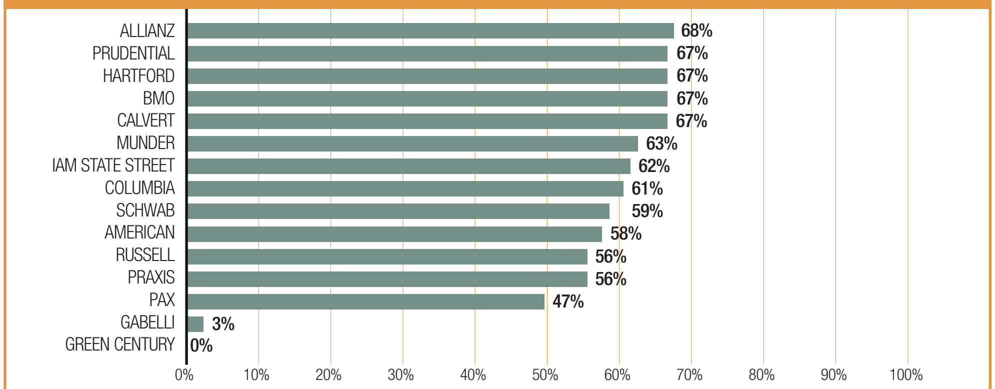


SOURCE: Fund Votes

** Funds that had less than 25 votes at the representative companies were excluded from this list.*

See Appendix B for full data table of mutual fund votes on say-on-pay.

FIGURE 4 – MUTUAL FUND FAMILIES LEAST LIKELY TO APPROVE PAY OF 100 MOST OVERPAID CEOs



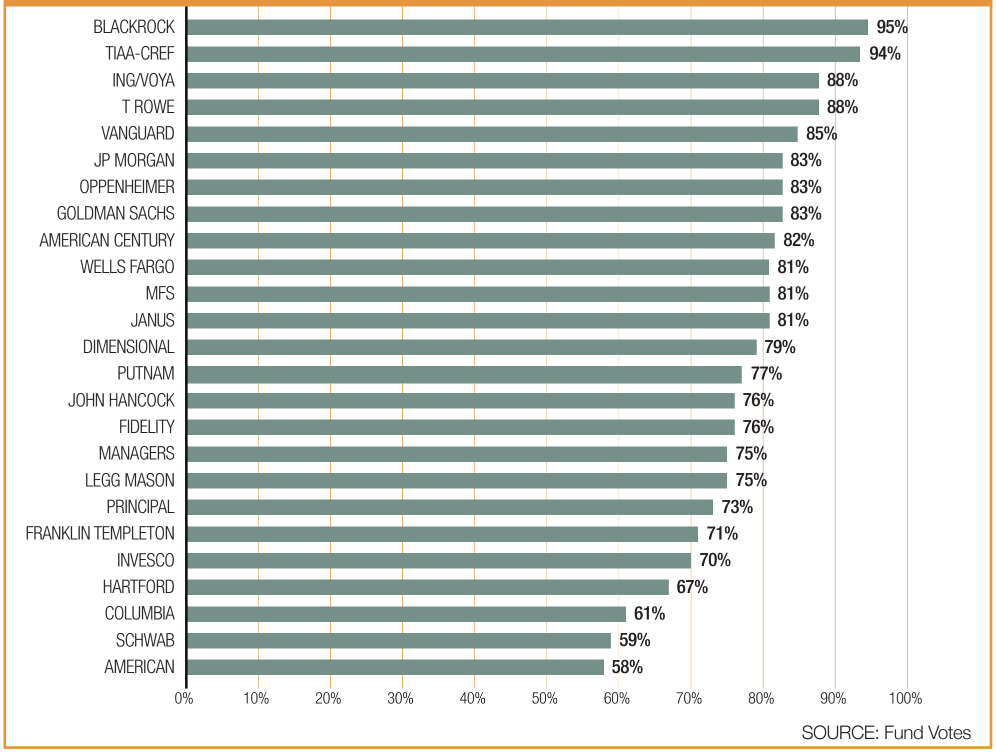
SOURCE: Fund Votes

** Funds that had less than 25 votes at the representative companies were excluded from this list.*

Note: State Street IAM Shares Fund is a separate fund created with the International Association of Machinists. State Street's own votes can be found in Appendix B.

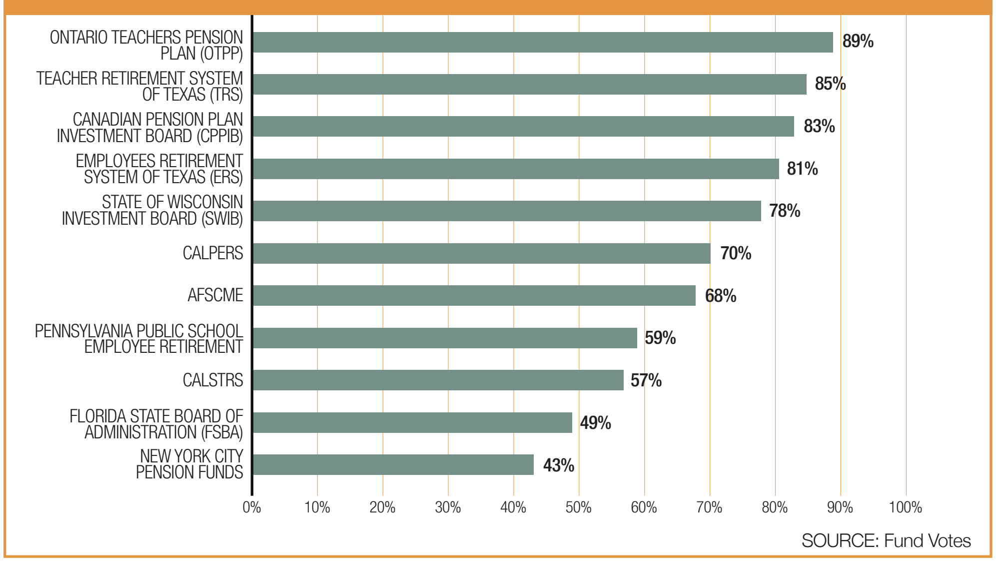
This section of the report was based on data provided by Fund Votes, an independent project started by Jackie Cook (CookESG Research) in 2004, when the SEC required for the first time that mutual funds must disclose their complete proxy voting records for the year.[12] The Fund Votes database covers proxy votes reported in N-PX filings by around 110 fund families, including the largest fund groups by assets under management, well-known brand names, and a number of SRI mutual fund families. The database also incorporates certain proxy vote data disclosed online by large North American public pension funds. Mutual fund filings containing their voting records, known as NP-X, are complex and Cook's proprietary tools for analyzing and representing the large volumes of data make her the leading tracker of institutional proxy voting.

FIGURE 5 – APPROVAL RATES OF PAY OF 100 MOST OVERPAID CEOs AT 25 LARGE MUTUAL FUNDS



** Fund domestic security holdings from Morningstar data as of November 2014.*

FIGURE 6 – APPROVAL RATES OF PAY OF 100 MOST OVERPAID CEOs AT PUBLIC PENSION FUNDS



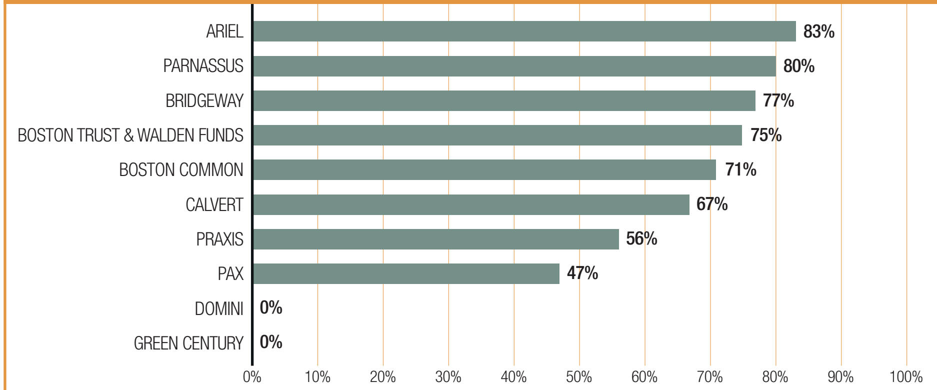
Each year's N-PX filing is due August 31 and covers the most recent 12-month period ended June 30. One element of complexity is that each fund family includes multiple funds. In some cases different votes might be recorded for the same security by different funds within a fund family. These cases may reflect different ways in which proxy votes are managed within fund families. Some coordinate votes centrally while others might delegate proxy voting to individual fund managers.

In order not to overweight votes on securities held more widely across a fund group compared to those held by only a few funds, each vote on each security is only recorded once across a fund family—a 'unique' vote count. Cook believes that the unique vote method provides the most accurate method of analyzing these votes.

Support for say-on-pay resolutions at the Fund Family level is calculated as the percent of votes case 'for', using the sum of votes 'for', 'against' and 'abstain' as the denominator.

Of the 100 companies selected for the survey, 99 held a say-on-pay vote during the period July 1, 2013 to June 30, 2014. Bed, Bath and Beyond did not hold an AGM during this period. Furthermore, only a handful of say-on-pay votes were recorded for CBS and Viacom due to their share structures, entailing multiple classes with no voting rights assigned to the most widely held class of shares in each case.

FIGURE 7 – APPROVAL RATES OF PAY OF 100 MOST OVERPAID CEOs AT SRI FUNDS



SOURCE: Fund Votes

Fund Votes identified 43,737 votes cast by 2,378 funds belonging to 109 mutual fund groups on the 99 say-on-pay resolutions that came to vote at the annual general meeting (AGMs) of the 100 companies surveyed for this report. Furthermore, the survey considered say-on-pay votes cast by nine large North American public pension funds, as well as the pension fund of a well-known labor union, AFSCME.

ISS recommended opposing say-on-pay packages at 21 of these companies, while Glass Lewis gave D or F grades to 63 of the companies on our list (though in some cases still recommended votes in favor of the packages).

ISS recommended opposing say-on-pay packages at 21 of these companies, while Glass Lewis gave D or F grades to 63 of the companies on our list (though in some cases still recommended votes in favor of the packages).

Public pension funds are not required to fill out N-PX filings, but a number of them have taken steps to publicly disclose their votes on their websites. Below is a graph of those funds' votes on these proposals over the same time period, July 1, 2013 to June 30, 2014.

As to be expected, Socially Responsible Investing (SRI) funds were more likely to vote against excessive pay packages: half the SRI funds supported less than 72% of the proposals, whereas the majority of other mutual funds supported more than 80%. There is a significant range in the support level that social investment funds gave these packages. Green Century abstained from all the say-on-pay votes at those companies they held that are featured in this study; Domini voted against each one. The level of support from other funds ranged from 47% to 83%.

COMPENSATION COMMITTEE DIRECTORS

It is the board of directors' responsibility to be the guardians of shareholders' interests. Often they delegate the most difficult decisions to management, yet the thorniest, most personal decision is how to pay the executives who manage the company. This is the province of the compensation committee. Boards require a certain amount of collegiality to function well, but collegial too often blends into non-confrontational. In such cases, deferring to compensation consultants (who have their own potential conflicts of interest beyond the scope of this report) may be the simplest choice.

One of the most important works on executive compensation in the past 20 years was Lucien Bebchuk and Jesse Fried's *Pay Without Performance*, which argues that one of the reasons for increasing pay is a direct result of CEOs' power over decisions.[13] "Compensation arrangements have often deviated from arm's-length contracting because directors have been influenced by management, sympathetic to executives, insufficiently motivated to bargain over compensation, or simply ineffectual in overseeing compensation," the authors write. "Executives' influence over directors has enabled them to obtain 'rents' — benefits greater than those obtainable under true arm's-length bargaining."[14] In other words, shareholders are paying more than they would need to, due to the CEOs' relationships with board members.

Up until 2003, CEOs could sit on the board nominating committee, essentially allowing them to hire their own bosses. Sarbanes Oxley made improvements in director independence requirements, but these have yet to affect CEO pay. Many directors from before that time continue to serve on boards.

Even under improved requirements, the interlocking network of relationships remains. This is not necessarily an explicit "you scratch my back, I'll scratch yours" as it is a broader connection of shared interests.

A director who has already approved an extraordinary pay package at one company may be seen as a good candidate to agree to a similar package elsewhere. There are 17 directors who serve on two of the boards we highlight for overpay. The list includes 11 individuals who are or were themselves CEOs. Visit Appendix D to see the full list of compensation committee directors on multiple committees of the S&P 500.

The pay directors receive may also be an issue, particularly in the case of individuals who rely on their board pay as a primary source of income. Retired Air Force General and Chairman of the Joint Chiefs of Staff Richard Myers serves on four S&P 500 company compensation committees (Northrop Gruman, United Technology, AON, and Deere). In fiscal year 2013 he received a sum of $460,000 in cash payments (Deere has already announced an increase for this year), and an estimated $569,000 in various forms of equity as payment for his service as a director. To speculate whether such fees are sufficient to make directors more acquiescent and less willing to rock the boat, is not to question their character but to acknowledge human nature.

"Being on a corporate board is a great gig. It offers personal and professional connections, prestige, company perks, and of course money. . . It only stands to reason that board members want to hold on to these cushy positions.

Further, CEOs often have a lot of influence over the nominating process and sometimes exert their power to block nominations. Beyond elections, CEOs can use their control over the company's resources to, well, legally (and sometimes illegally) bribe board members. In fact, there is strong evidence that companies with higher CEO pay compensate their board members more generously, an indication that board members are engaged in a corporate liaison with CEOs rather than serving as independent parties that can assess the appropriate award for the CEO's performance."

- Sue Holmberg and Michael Umbrecht, "Understanding the CEO Pay Debate: A Primer on America's Ongoing C-Suite Conversation," Roosevelt Institute, October 2014[15]

Many shareholders have already taken the step to move beyond voting no on management say-on-pay to the next step of voting against the directors who approved the program, and have urged other shareholders to do so.

Some board members have left the compensation committees since the most recent vote and do not appear on this list. Most notably, after three directors received majority opposition at Nabors' annual meeting, two were removed from the compensation committee.[16]

In 2013 Change to Win (CtW) Investment Group reached out to McKesson shareholders to urge them to vote against both the pay package and the election of certain directors, including Jane E. Shaw (who has been on the board for more than 20 years) and Compensation Committee Chairman Alton Irby.[17] According to CtW's analysis, 78% of shareholders voted against management's say-on-pay proposal, 53% supported a shareholder proposal seeking the strengthening of clawbacks, and 40% voted against Irby's re-election to the board.[18]

FIGURE 8 – COMPENSATION COMMITTEE DIRECTORS AT TOP 10 MOST OVERPAID

COMPANY	COMPENSATION COMMITTEE MEMBER	DIRECTOR SINCE	PRIMARY EMPLOYMENT	OTHER PUBLIC COMPANY BOARDS
Nabors Industries Inc.	Linn, Michael C.	2012	President of MCL Ventures, LLC	
	Lombardi, John V. ** – Chair	2009	Professor of History, University of Massachusetts Amherst	
	Yearwood, John	2010	Retired President, CEO and COO of Smith International, Inc.	
Oracle Corporation	Chizen, Bruce R. – Chair	2008	Senior Adviser to Permira Advisers LLP, director of Synopsys, Inc., Venture Partner at Voyager Capital	Synopsys
	Conrades, George H.	2008	Akamai Technologies Inc Chairman, Managing Partner at Longfellow Venture Partners	Harley-Davidson Inc, Ironwood Pharmaceuticals Inc.
	Seligman, Naomi O.	2005	Senior Partner at Ostriker von Simson	Akamai Technologies, iGate corporation
Freeport-McMoRan Copper & Gold Inc.	Graham, Jr., H. Devon – Chair	2000	President of R.E. Smith Interests	
	Allison, Jr., Robert J.	2001	Retired Chairman and Chief Executive Officer of Anadarko Petroleum Corporation	Anadarko Petroleum Corporation, Emeritus
	Fragos Townsend, Frances	2013	Executive Vice President of Worldwide Government, Legal and Business Affairs MacAndrews & Forbes Holdings Inc.	SIGA Technologies, Inc., Scientific Games Corporation and The Western Union Company
	Krulak, Charles C.	2007	President of Birmingham-Southern College	Union Pacific Corporation
	Lackey, Bobby Lee	1995	Consultant	McManus Produce Co., Inc., McManus Cotton Gin, Inc. and McManus Ice Co., Inc.
	McCoy, Dustan E.	2007	Chairman and Chief Executive Officer of Brunswick Corporation	Brunswick Corporation and Louisiana-Pacific Corporation
CBS Corporation	Gifford, Charles K. – Chair	2006	Chairman Emeritus of Bank of America	Bank of America Corporation, Northeast Utilities,
	Cohen, William S.	2003	CEO and Chariman of The Cohen Group	RLJ Acquisition
	Gordon, Bruce S.	2006		Northrop Grumman Corporation, ADT Corporation
	Morris, Doug	2007	Sony Music Entertainment CEO	
Discovery Communications, Inc.	Miron, Robert J. – Chair	2008	Chairman of Discovery Communications	National Cable & Telecommunications, CableLabs
	Beck, Robert R.	2008	Independent Financial Consultant	American Mobile Systems
	Gould, Paul A.	2008	Managing Director of Allen & Company, LLC	Discovery Holding Company, DIRECTTV
The Walt Disney Company	Arnold, Susan E. – Chair	2007	Operating Executive of The Carlyle Group	McDonalds Corporation
	Chen, John S.	2004	Executive Chair & Interim CEO of Blackberry, Ltd, Senior Advisor of Silver Lake	Blackberry, Ltd., Sybase, Wells Fargo & Company
	Langhammer, Fred H.	2005	Chairman of Global Affiars of Estee Lauder Companies Inc	
	Lewis, Aylwin B.	2004		Kmart, Potbelly Sandwich Works, Starwood Hotels & Resorts Worldwide
CVS Caremark Corporation	Brown II, C. David – Chair	2011		
	Dorman, David W.	2006		Motorola Solutions, Inc., AT&T, Yum! Brands Inc., Sprint, Pacbell, eBay
	Heard, Marian L.	1999	Oxen Hills Partners CEO	BioSphere Medical, Liberty Financial Companies, Liberty Mutual Holding
	Weldon, William C.	2013	Retired Chairman of Board of Johnson & Johnson	JP Morgan Chase & Co., Chubb Corporation, Exxon Mobil Corporation, Heartflow
Viacom, Inc.	Salerno, Frederic V. – Chair	2006	Retired Vice Chairman and CFO of Verizon Communications Inc.	Akamai Technologies, Intercontinetnal Exchange Inc, CBS Corporation
	McGarvie, Blythe J.	2007	Harvard Business School faculty	Accenture Ltd, LKQ
	Norville, Deborah	2013	Inside Edition anchor	
	Phillips Jr., Charles E.	2006	CEO of Infor Global Solutions	
	Schwartz, Wiliam	2006	Cadwalader, Wickersham & Taft counsel, Yeshiva University, Cardozo School of Law professor	
Regeneron Pharmaceuticals, Inc.	Tessier-Lavigne, Ph.D., Marc – Chair	2011	The Rockefeller University President, Carson Family Professor, Laboratory of Brain Development head at Rockefeller University	Pfizer Inc, Agios Pharmaceuticals Inc
	Baker, Charles A.	1989	Retired CEO, President & Chairman of The Liposome Company Inc.	
	Goldstein, M.D., Joseph L.	1991	Molecular Genetics & Internal Medicine Professor; Chairman of the Dept. Molecular Genetics at the University of Texas Southwestern Medical Center, Dallas	
	Poon, Christine A.	2010	Max M. Fisher College of Business (Ohio State) John W. Berry Sr. Chair & Dean	Prudential Financial Inc, Royal Philips Electronics
	Sing, George L.	1988	Managing Director at Lancet Capital and CEO of Stemnion Inc	Lancet Capital, Stemnion Inc.
McKesson Corporation	Shaw, Ph.D., Jane E. – Chair	1992		Intel Corporation, Aerogen Inc, Yahoo
	Coles, M.D., N. Anthony	2014	Chairman and Chief Executive Officer of TRATE Enterprises, LLC	Seragon Pharmaceuticals
	Jacobs, M. Christine	1999	Chairman of the Board, President and Chief Executive Officer of Theragenics Corporation, Retired	
	Lawrence, M.D, David M.	2004	Retired Chariman of the Board and CEO of Kaiser Foundation Health Plan Inc., and Kaiser Foundation Hospitals	

*** Indicates a director that has since left the compensation committee*

METHODOLOGY

The goal of this report is to identify the 100 S&P 500 companies with the most extreme CEO compensation issues, while highlighting the broken components of the spiraling system of executive pay.

HIP INVESTOR REGRESSION ANALYSIS

HIP Investor did a quantitative analysis, which analyzed the S&P 500 as of June 30, 2014, calculating a set of linear regressions between two types of factors — financial performance and executive pay.

FIGURE 9 – TOP 25 MOST OVERPAID BY HIP INVESTOR REGRESSION ANALYSIS

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION	EXCESS PAY
1	Oracle Corporation	Lawrence J. Ellison	$78,440,657	$66,502,147
2	Nabors Industries Ltd.	Anthony G. Petrello	$68,246,187	$57,044,669
3	CBS Corporation	Leslie Moonves	$66,932,581	$54,625,749
4	Freeport-McMoRan Copper & Gold Inc.	Richard C. Adkerson	$55,260,539	$43,822,727
5	Viacom, Inc.	Philippe P. Dauman	$37,186,099	$24,992,602
6	Regeneron Pharmaceuticals, Inc.	Leonard S. Schleifer, M.D., Ph.D.	$36,272,665	$22,719,955
7	The Walt Disney Company	Robert A. Iger	$34,321,055	$22,180,663
8	Discovery Communications, Inc.	David M. Zaslav	$33,349,798	$20,866,901
9	Time Warner Inc.	Jeffrey L. Bewkes	$32,501,715	$20,363,853
10	CVS Caremark Corporation	Larry J. Merlo	$31,330,162	$19,384,399
11	The Estée Lauder Companies Inc.	Fabrizio Freda	$31,598,679	$19,255,773
12	Comcast Corporation	Brian L. Roberts	$31,367,254	$19,163,262
13	Aetna Inc.	Mark T. Bertolini	$30,725,409	$18,746,643
14	Salesforce.com, Inc.	Marc Benioff	$31,333,332	$18,523,156
15	21st Century Fox	K. Rupert Murdoch	$28,913,040	$16,742,060
16	Exxon Mobil Corporation	Rex W. Tillerson	$28,138,329	$16,342,331
17	Hasbro Inc.	Brian Goldner	$27,440,726	$15,523,421
18	Honeywell International Inc.	David M. Cote	$25,973,246	$13,934,306
19	Emerson Electric Co.	David N. Farr	$25,318,952	$13,468,141
20	McKesson Corporation	John H. Hammergren	$25,919,882	$13,332,578
21	Lockheed Martin Corporation	Marillyn A. Hewson	$25,155,799	$13,288,088
22	Yahoo! Inc.	Marissa A. Mayer	$24,935,712	$13,114,635
23	Chipotle Mexican Grill, Inc.	Steve Ells	$25,116,871	$12,530,876
24	Ralph Lauren Corporation	Ralph Lauren	$24,537,936	$12,178,175
25	Chevron Corporation	John S. Watson	$24,017,303	$12,115,527

See Appendix C for full data table of HIP Investor regression analysis.

SOURCE: HIP Investor and Institutional Shareholder Services Inc.

AS YOU SOW INDICATOR ANALYSIS

We began this report by having conversations with a variety of experts to identify a range of quantitative data points under which companies could be measured and ranked, and potential practices of concern. My own nearly 25 years in the field (including executive compensation analysis with the now-defunct Investor Responsibility Research Center as well as Institutional Shareholder Services) has informed this analysis.

In an effort to establish a comprehensive analysis that focused on most variables, those in the lowest fifth of ranking of S&P 500 received a red flag—as our goal from the beginning has been to identify the 100 companies in the S&P 500 where CEO pay is over greatest concern. Some data points were calculated differently and those are described more fully as each item is discussed. In addition, we considered third-party analysis of executive compensation.

The data points fall into a number of categories, defined more fully below, including: issues with incentive and equity pay, practices that contribute to ever-increasing pay, and issues that we believe undermine long-term business sustainability at a company.

Some of these points are imperfect approximations, particularly those in which we grappled with opaque practices. A company with one or two red flags likely has compensation practices within the norm, and no single red flag indicts a company. Some of the elements may not in themselves represent significant outlays for these corporations but may be indicators of a board more eager to placate an executive than perform its duties. While there is no universal consensus on specific criteria, and there is active debate around where the lines should be drawn, the companies here appear on a list for an accumulation of issues. The companies that appear on the top 100 list each have five or more identified red flags. In contrast, over half the companies in the S&P 500 have three or fewer flags.

Pay and performance: issues with incentive and equity pay

The largest component of executive compensation have been provided under so called "performance pay" incentives, and through equity awards. Too often the metrics that drive pay are short term (even those considered long-term are typically for three years or less), and provoke decisions with negative long-term impact (from financial engineering to underinvestment in growth). This section of the report analyzes some disconnects and distortions in executive pay as it relates to performance, particularly over a longer-term threshold.

Compensation inflators: contributors to the upward spiral

Throughout the report As You Sow considers the question of why executive pay has increased so significantly at a disproportionately higher rate than any other measure rate, including stock price, company value, and employee pay.

The research highlights companies with practices that inflate pay.

High executive pay at the expense of long-term sustainability/other stakeholder concerns

High executive pay is a societal issue not just because of the numbers involved but because of the impacts as well. Decisions on executive pay represent priorities and can offer insight into whether plans are in place for long-term sustainable company success, which is of importance to long-term shareholders. For example, indicators of employee and customer treatment offer valuable insight toward allocations of resources.

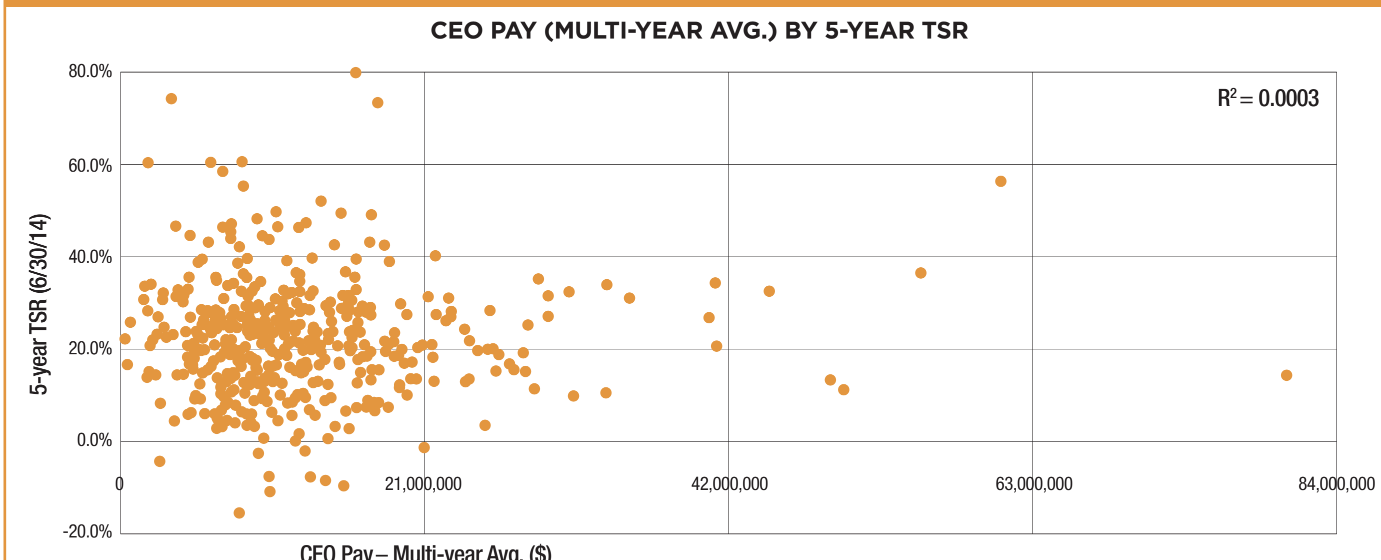
The consensus view

As You Sow also considered third-party analyses, including those by proxy voting advisors and governance experts. Their proprietary models use different markers, and each adds value. The final point included in the tally was average shareholder vote for say-on-pay over the last three years. Since many of these data points are proprietary, we do not include that table. However, we do note that the companies with the highest possible level of concern were among the highest in the ultimate overpaid ranking.

Pay and Performance: Issues with Incentive and Equity Pay

No phrase has been trumpeted more by companies and consultants in the past decade than "pay for performance." In 1993, Congress passed Section 162(m) of the Internal Revenue code capping tax-deductibility of CEO salary at $1 million—in an attempt to curb increased executive pay—creating what many have called the "performance pay loophole." The rule prohibited corporate tax deductions for executive pay over $1 million unless that pay is rewarded for meeting performance goals. The broken tax system itself is a key factor in driving higher and higher pay, but that is a topic for another report.

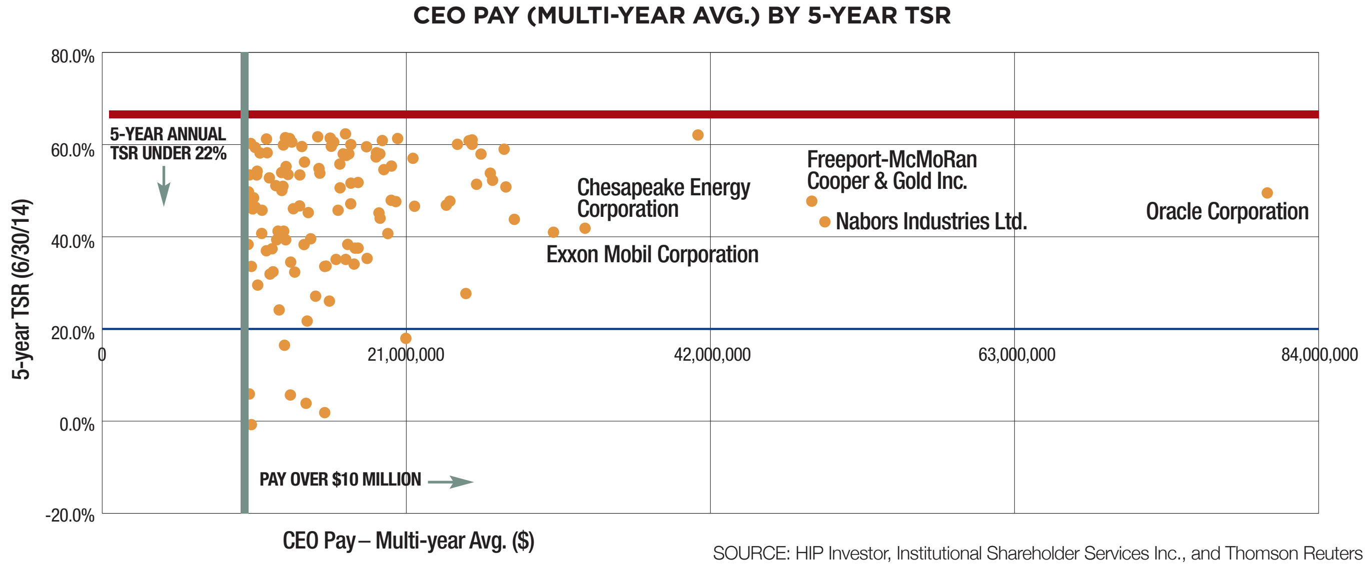
FIGURE 10 – PAY AND PERFORMANCE: S&P 500



SOURCE: HIP Investor, Institutional Shareholder Services Inc., and Thomson Reuters

This data shows there is virtually no correlation between CEO pay, as calculated by multi-year average, and performance, as measured by five year total shareholder return.

FIGURE 11 – PAY AND PERFORMANCE: HIGH PAY, LOW RETURNS



SOURCE: HIP Investor, Institutional Shareholder Services Inc., and Thomson Reuters

This graph highlights companies with high CEO pay, as measured by a multi-year average over $10 million, and low shareholder returns, as calculated by five-year annual total shareholder returns under 22%. Five of the six highest-paying companies that match this criteria are on our list of 25 most overpaid CEOs – they are flagged above.

In August 2013, Senators Jack Reed (D-RI) and Richard Blumenthal (D-CT) introduced S. 1476, the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act, to take a legislative approach to stopping excessive CEO pay. If passed, the legislation would close a loophole in current corporate tax law which allows unlimited tax write-offs on performance-based executive pay—a loophole that has been estimated to cost taxpayers over $50 billion. The Act would only allow tax deductions for public companies of up to $1 million per employee.[19]

As figure 10 shows, there is increasing evidence that there is little clear correlation between pay and performance. One of the key implicit questions is how one CEO vs. another truly adds to a company's performance, a concept known as "marginal productivity." In his book *Capital in the 21st Century*, Thomas Piketty says, "If executive pay were determined by marginal productivity, one would expect its variance to have little to do with external variances and to depend solely or primarily on non-external variances. In fact, we observe just the opposite: it is when sales and profits increase for external reasons that executive pay rises most rapidly."[20]

It is in determining the metrics of the short-term and long-term performance pay packages that the board has its clearest obligation to consider company strategy. Every indication is that the pay for performance metric has been, at best poorly executed. (The most recent reference is Michael Dorff's book *Indispensable* which systematically takes apart the myths around pay, including such myths as causation, predictability, and alignment.)[21]

One reason has been an often myopic focus on short-term performance criteria. One academic survey of 400 financial executives including Chief Financial Officers found that 80% would reduce research and development spending, delay maintenance, and limit marketing in order to meet short-term targets (these targets are often used to determine compensation).[22] A further point to add in this discussion is the depressingly short time period most incentive plans cover, as noted in "The Alignment Gap Between Creating Value, Performance Measurement, and Long-Term Incentive Design," authored by Organizational Capital Partners and commissioned by the Investor Responsibility Research Center Institute.[23] Ideally a red flag should be awarded for companies with "long-term" incentives that focus on only three years, but the practice is now so common that to award a red flag for companies with an inappropriate focus under the long-term incentive plan would be to essentially give a flag to practically every company in the S&P 500.

A final, and critical, consideration is the question of how much company performance is due to the one individual in the corner office. In addition to the many other executives and employees that contribute to corporate achievements, many market, industry, and technology forces outside the control of the CEO also contribute to the success and failure of any business.

The pay/performance comparisons below spotlight the lack of connection between corporate performance and CEO pay, and illustrate high pay in multiple contexts.

FIGURE 12 – OVERPAID BY PAY AND PERFORMANCE INDICATORS

COMPANY	TSR	ROA	LOWEST ROIC IN 3 OF 5 YEARS	DECLINING 5 YEAR ROIC & PAY UP $5 MILLION	NEGATIVE ECONOMIC PROFIT, NEGATIVE RELATIVE TSR, COMBINED WITH HIGH PAY	HIGHEST CASH INCENTIVES IN 4/5 YR	HEAVY BUYBACK RATIO	HEAVY BUYBACKS OF MORE THAN 20% & HIGHEST TOTAL 5 YEAR PAY	EQUITY AWARDS OVER $10 MILLION IN MOST RECENT FY 2	EQUITY AWARDS OVER $30MILLION IN PAST 6 YRS	OPTIONS OVER 3 MILLION IN AT 5/8 YRS	SUM
AFLAC Inc.	🚩					🚩			🚩		🚩	4
Ameriprise Financial		🚩				🚩	🚩	🚩	🚩		🚩	5
Amgen Inc.						🚩	🚩	🚩		🚩		4
Anadarko Petroleum Corporation		🚩	🚩							🚩	🚩	4
Capital One Financial		🚩							🚩	🚩	🚩	4
Chesapeake Energy		🚩	🚩		🚩				🚩	🚩		5
Freeport-McMoRan Copper & Gold	🚩			🚩	🚩						🚩	4
Hewlett-Packard Company	🚩				🚩		🚩	🚩		🚩	🚩	6
International Business Machines						🚩	🚩	🚩	🚩	🚩		5
McKesson Corporation						🚩	🚩			🚩	🚩	4
MetLife, Inc.	🚩		🚩			🚩					🚩	4
Nabors Industries		🚩	🚩		🚩				🚩			4
Northrop Grumman					🚩	🚩	🚩	🚩		🚩	🚩	6
Prudential Financial, Inc.		🚩	🚩		🚩						🚩	4
Raytheon Co.			🚩			🚩			🚩	🚩		4
State Street	🚩		🚩		🚩		🚩		🚩	🚩		6
The Chubb Corporation						🚩	🚩	🚩		🚩		4
The Estée Lauder Companies Inc.						🚩	🚩		🚩	🚩		4
The TJX Companies, Inc.						🚩	🚩		🚩	🚩		4
The Travelers Companies						🚩	🚩	🚩			🚩	4
The Walt Disney Company						🚩	🚩			🚩	🚩	4
Time Warner Cable Inc.						🚩	🚩	🚩			🚩	4
Viacom						🚩		🚩	🚩	🚩	🚩	5
Wells Fargo & Company		🚩				🚩			🚩	🚩		4

Lowest five-year TSR and highest total cash incentives

Total Shareholder Return is the most common measurement used today in incentive plans. Growing consensus suggests that it is problematic in the short term, but over a longer term it is the truest measurement of the value shareholders gain in holding a stock. As You Sow compared the 100 S&P 500 companies with the five-year lowest TSR to the companies with the highest 20% cash incentives. In other words, despite their stock market under-performance these companies paid among the highest cash incentive bonuses. Those 10 companies appeared on this list.

Return on assets

Return on assets is calculated by dividing net operating income after tax (but before other income or expenses like interest expense) by total assets. Many consider it a good measure of performance. As noted in a 2010 Harvard Business Review article, "ROA explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales."[24] In this calculation we considered the S&P 500 companies with the lowest Return on Assets and compared it to those with highest pay.

ROIC performance

Return on Invested Capital (ROIC) is increasingly regarded as the best measure of efficient use of capital, a financial metric that may best reflect CEO strategy and execution in enhancing corporate value. ROIC is calculated using net income less dividends divided by total capital.

In our analysis of ROIC, using data provided by HIP Investor, we used two measurements. Any company that had the lowest ROIC in three of the last five years and met a high pay measurement received a red flag. There were a total of 25 companies that received red flags under this measure.

In addition, HIP Investor identified the 20% of S&P companies with the greatest five-year decline in ROIC. Any long-term measure is time-point sensitive in that the outcome will vary by the selection point of measurement. (As we've noted, this is also true as related to option grant date). Indeed, there were companies that had the greatest percentage decline because their start date ROIC was quite good. However, for the most part we found that pay at these companies reflected the change in circumstances, either declining, remaining flat, or not significantly increasing in the face of that financial metric change. The companies that were awarded red flags were those 18 with five-year ROIC decline and reported compensation increases of over $5 million over these two points in time. (Companies with a change in CEO over this time period were not included in this data point.)

Negative economic profit, negative relative TSR combined with high pay

"The Alignment Gap Between Creating Value, Performance Measurement, and Long-Term Incentive Design," authored by Organizational Capital Partners and commissioned by the Investor Responsibility Research Center Institute (IRRCi), released in November 2014, found that economic performance explains only 12% of the variance in CEO pay.[25] In completing the analysis authors Mark Van Clieaf and Steve O'Byrne divided companies into four quadrants both by positive and negative five-year relative TSR and five-year positive and negative economic profit. While a subset of the companies is available in the report, the authors made the full list available to As You Sow. We crosschecked the companies in the double-negative quadrant against two high pay measures also over a five-year period and gave red flags to the 19 companies in both categories.

Among companies granting highest annual incentive in four of last five fiscal years

The absolute dollar amount of incentives, regardless of performance, is also an issue of concern. However, incentive pay varies considerably, dependent upon plan design, among other features. Both annual incentives and those known as "long-term" (which as noted above are generally not truly long-term) are reported in the same column in a company's proxy statement. This is one reason that media reports of highest pay tend to focus on different companies each year. Many companies have "long-term" incentive paid after three years that make pay higher in one year, and conversely create the impression of falling pay the following year. (And in any case, three years is not sufficient time to be truly considered long-term.) By using a larger stretch of time, we intend to pinpoint more problematic issues.

For a CEO's incentive pay to be among the highest on a given year may reflect a payout of a long-term incentive award, or suggest an extraordinary year and an appropriate alignment between pay and performance. For this reason, in selecting an outlier in this category As You Sow chose to focus on those companies that granted among the highest annual incentives in four of the last fiscal years. The job of the board is to make sure that the metrics for extraordinary payouts should be challenging to achieve. To be among the highest annual incentives granted to S&P 500 companies for four of the last five years suggests that metrics could have been less than rigorous or that target payout level may have been too high. There were 76 companies in the S&P 500 that received a flag for this feature. Many of them are among the largest companies by market capitalization, which may suggest that annual cash incentives are based more on company size rather than company performance.

High buybacks

When executives have the potential to influence metric results in a non-sustainable way that is also of paramount concern to shareholders. Critics have recently focused increasingly on the problems with buybacks. In a study published by the Roosevelt Institute, William Lazonick noted that: "The estimated $3.6 trillion that Standard and Poor's 500 companies have spent on buybacks since 2001, in addition to $2.4 trillion in dividends, is a major reason for the ongoing erosion of middle-class employment opportunities in the U.S."[26]

Lazonick goes on to note that "There are three possible drivers of the stock price of a publicly traded company: innovation, speculation, and manipulation. . . Open-market stock repurchases, or buybacks, are a systemic mode of stock-price manipulation, making use of cash generated by a company's profit-making capability, including in many cases cash flow made 'free' by downsizing workers whose skills and efforts made possible the company's profits in the first place."[27]

Earnings per share is among the most frequently used CEO pay metrics, and while the numerator of that fraction can be challenging to move, the denominator is more within the reach of executives. Proving correlation and causation is impossible, but this data point demands shareholders' attention.

In March 2014, Larry Fink, CEO of Blackrock wrote in a letter to executives, "Too many companies have cut capital expenditure and even increased debt to boost dividends and increase share buybacks. We certainly believe that returning cash to shareholders should be part of a balanced capital strategy; however, when done for the wrong reasons and at the expense of capital investment, it can jeopardize a company's ability to generate sustainable long-term returns."[28]

As You Sow used two measures described below to look at potential influence of buybacks on executive compensation. While both of these measures are imprecise, in this case we felt the approximations provided useful data.

CtW Investment Group provided us with a list of S&P 500 companies with the current share count and the share count five years earlier. We then looked at percentage change. The data showed 54 companies with reduced share count of 20% or higher. Those companies were then crosschecked with highest five-year bonus and 12 companies met the combined criteria.

William Lazonick provided us data through the Academic Industry Research Network (www.theAIRnet.org) and Mustafa Erdem Sakinç that we then used to compare the ratio of buybacks to net income (using net income before extraordinary expenses). We created an average ratio by dividing the sum of the buybacks over five years by the sum of net income over the same five years. We then crosschecked this with our high pay figures.

CASE STUDY: MICROSOFT

The recent compensation at Microsoft deserves special mention, though it fell outside the parameter of this study, since the company's proxy statement came out in October. The company valued the total package for CEO Satya Nadella at $84 million, with the largest component being restricted stock that will be awarded based on Microsoft's performance compared to companies in the S&P 500 index.[30] The company's disclosed calculation of $59 million is based on the assumption that Microsoft's stock-price gains plus dividend payouts is higher than 60% of these companies in each of three overlapping five-year stretches ending in 2019, 2020, and 2021.[31] This could happen, presumably, even if the S&P 500 was flat or lost value, as long as Microsoft did not lose as much value. Suppose enough companies in the S&P 500 fall due to exogenous factors, perhaps the price of oil, so Microsoft outperforms simply by staying flat. ISS, which recommended a vote against the package, noted that Nadella could sell up to 25% of the shares even if the company underperformed other large companies through the vesting period.[32] Several large investors weighed in opposing the plan, and approximately 72% of shareholders supported the say-on-pay proposal, down significantly from the prior year's 96% level of support.[33]

Equity awards

The majority of wealth accumulation by CEOs over the past decades has come through equity compensation. The idea behind stock-based compensation initially is that it would increase the alignment of the interests of executives with that of shareholders. Yet that is true only up to a point, and for most executives at most S&P 500 companies that have ownership guidelines in place, that point has already been crossed. Additional equity does not promote extra effort.

In this study As You Sow used two criteria related to equity grants, one absolute and one over time related to equity grants—the outliers for the most recent fiscal year and for totals over several years. There were 46 companies that issued equity grants of over $10 million in the most recent fiscal year, a threshold that we considered to be extraordinarily large.

As an additional criteria, As You Sow looked at stock based pay over the past six years and identified those companies that had granted over $30 million in total equity to their CEOs over that time period. As noted by Roger Martin in the Harvard Business Review study, "The Rise (and Likely Fall) of the Talent Economy": "Stock-based compensation motivates executives to focus on managing the expectations of market participants, not on enhancing the real performance of the company."[29]

Stock option grants of over $3 million in at least five of last eight years

A stock option grant is a form of award that allows an executive to buy stock at a particular price, usually the value on the date it is granted, at a set point in the future. If the value of the stock price increases the executive can exercise the right to purchase those shares and sell the share and pocket the difference. (The simplest way to get a sense of this amount is to look in the proxy statement figure appears in a table called "Options exercise and stock awards vested during fiscal year," under the column "Value realized upon exercise." More information is available on Form 4s executives are required to file upon transactions.) When stock options are granted judiciously they provide a form of compensation that can align the interests of executives and shareholders. However, repeated use of large option grants, particularly when executives cash in those options and sell the shares (sometimes known as churn), defeats that purpose.

> *"There are two conditions that must prevail for equity-based pay to result in higher stock prices: equity-based pay must improve CEOs' performance, and CEOs must have the power to raise their companies' stock prices. The best evidence is that neither of these conditions holds true."*
>
> *- Michael B. Dorff, Professor of Law, Southwestern Law School*[34]

Shareholders have additional concerns with the practice. For one, it is hard to correctly estimate the value at grant date. Most companies use the Black-Scholes formula named after creators Fischer Black and Nobel Prize-winning Myron Scholes.

Often the estimated value has been significantly under the ultimate payment and have resulted in stunningly lucrative windfalls for rise in stock price that is often unrelated to any executive action. In other cases, when an option has no value because the strike value is below the current stock value, there is some indication that it can inspire executives to engage in manipulative actions (including, for example, buybacks or mergers).

"If expectations fall during the course of a given year, the options or deferred stock granted a year later will be priced low. To reap a big reward, all managers have to do is help expectations recover to the prior level."

- Roger Martin, "The Rise (and Likely Fall) of the Talent Economy," Harvard Business Review[35]

In addition, because of the uncertainty around ultimate value—including the previous accounting illusion that there was no inherent value—options have historically been awarded in larger tranches than other forms of compensation. This has led to inappropriately high windfalls irrespective of executive action, a point we will touch on later in the report.

CASE STUDY: MASSEY ENERGY

No clearer indication of the danger of focusing on short-term equity price is available than in emails made public in the recent indictment of Don Blankenship, the former CEO of Massey Energy. In 2010, an explosion at the Upper Big Branch Mine, owned by Massey Energy, killed 29 miners. The indictment against then CEO Blankenship, issued on November 13, 2014 after a lengthy investigation, laid bare the inner-workings of the company and a CEO who was explicit that costs, including those for safety standards, needed to come down for the sake of his and fellow executives equity-heavy paychecks. "Look at your cost and figure out what you are going to do to get it down because if we don't have a better August and September than we had July, you can be assured that the stock options are not going to look very attractive."[36] Massey shareholders, including those executives, lost the value of their shares after the accident, but the miners lost their lives. The grand jury found that "During the Indictment Period, Blankenship and others known and unknown to the Grand Jury used compensation decisions to communicate an expectation and acceptance that UBB would routinely violate mandatory federal mine safety and health standards."[37] Among the charges against Blankenship is that in the days following the accident he participated in drafting of documents filed with the SEC that stated "we [Massey] strive to be in compliance with all regulations at all times."[38] The indictment charges that these statements "were materially false, fraudulent, fictitious, and misleading."[39]

CASE STUDY: AMERIPRISE FINANCIAL

Large option grants at bottom of market rewarded executives unduly for market trends. Ameriprise's CEO Cracchiolo received options with an estimated value at $9.1 million in both 2008 and 2009.[40] The estimate was considerably off. In 2013, CEO Cracchiolo took home $76,388,601 in value through exercised stock options, this in addition to $35.2 million he received in 2012.[41] In 2014 Cracchiolo has sold additional shares receiving over $30 million. The compensation committee reports that it continues its large grants because it "believes that reducing or limiting current stock option grants . . . because of prior gains realized by an executive officer would . . . reduce the motivation for continued high achievement."[42]

Large equity grants at the bottom of the market coupled with continued high pay

A truism on Wall Street is that it is better to be lucky than smart. Certainly executives at the height of the financial crisis did not feel lucky, but those who received large option grants when stock price was extremely depressed have been so. Research identified companies at the top 25 companies by size of option grant in each of 2007, 2008, and 2009, and reviewed whether these companies remained among the highest paying companies in subsequent years. Many executives who received large grants at the bottom of the market will in the coming years receive extraordinary wealth upon cashing in those options. Some already have. In many cases this was largely a matter of the market recovery. A conscientious board would be tracking such results, and adjust future awards in light of extraordinary windfalls. In cases where no such adjustments appeared to have been made in subsequent grants and the CEO still remained among the highest paid, a red-flag point was awarded. There were 22 companies that gave high option grants at or near the bottom of the market and were among the companies with highest total pay in 2014.

Compensation Inflators: Contributors to the Upward Spiral

There are several qualitative factors that play a key role the increase of compensation, including particularly the collegial hyper-connected world of corporate directors, which we intend to look at more closely and touch on below. This report will focus on those measures that we are able to quantify.

FIGURE 13 – OVERPAID BY UPWARD SPIRAL INDICATORS

COMPANY	RATIO OF CEO TO PEER MEDIAN	BENCHMARKING 50%+ SALARY	BENCHMARKING 50%+ TOTAL PAY	INCREASE IN NON-PERFORMANCE BASED PAY	HIGH SALARY	HIGH OPTIONS AT MARKET BOTTOM	HIGH NON-PERFORMANCE BONUS	CEO RETIREMENT PACKAGE	ALL OTHER PAY OVER $500K	TOTAL HIGHEST NEO PAY OVER 5 YRS	SUM
American Express Company				🚩	🚩	🚩	🚩		🚩	🚩	6
Bristol-Myers Squibb Company	🚩			🚩	🚩	🚩			🚩	🚩	6
Cablevision Systems Corporation	🚩		🚩		🚩				🚩	🚩	5
Capital One Financial Corporation	🚩			🚩		🚩	🚩			🚩	5
CBS Corporation	🚩			🚩	🚩				🚩	🚩	5
CVS Caremark Corporation	🚩			🚩				🚩	🚩	🚩	5
Discovery Communications, Inc.	🚩		🚩		🚩				🚩	🚩	5
Exxon Mobil Corporation	🚩				🚩		🚩	🚩		🚩	5
Ford Motor Co.				🚩	🚩	🚩	🚩		🚩	🚩	6
Freeport-McMoRan Copper & Gold	🚩			🚩	🚩	🚩		🚩	🚩	🚩	7
General Growth Properties, Inc	🚩			🚩			🚩		🚩	🚩	5
Honeywell International Inc.					🚩		🚩	🚩	🚩	🚩	5
Nabors Industries Ltd.	🚩		🚩		🚩	🚩	🚩		🚩		6
The Coca-Cola Company	🚩				🚩	🚩			🚩	🚩	5
United Technologies Corp.					🚩	🚩	🚩		🚩	🚩	5

Paying significantly above peers

A recent IRRC Institute report reiterated what many compensation observers have long noted: "competitive executive pay is the dominant executive pay paradigm. This means that comparing the pay structure and levels of executives in other similar companies is the main driver of executive pay design." In other words pay is high at some companies because pay is high at other peer companies. If executive pay is ever to rebalance to more reasonable levels that trajectory will need to be reversed. Those companies that pay above peers not only are individually problematic, but are drivers of moving the peer group median pay level higher, as they will disproportionately affect median pay the following year.

ISS calculates ratio of CEO pay compared to peer median in companies identified by ISS as appropriate peers. (Information on ISS's peer selection process can be found on the company's website.) As You Sow purchased this information from ISS and simply sorted from greatest to smallest. In that sorting, the ratio of 1.5 was chosen as the cut off to select companies. Using this data, a red flag was given to 97 companies.

Benchmarking at 50% or higher

There are two ways that peer benchmarking has contributed to the inflationary spiral of CEO pay. The first, when companies unjustifiably include in their peer group firms of a significantly larger size. The second problem, an over-reliance on benchmarking percentages, remains significant. Companies that benchmark at the average 50th percentile of their peers will increase based on outlier influence. Companies that base on the 50th percentile median will also be affected by the steadily changing, seemingly irreversible upward movement known as ratcheting. That is particularly true in the current

CASE STUDY: CABLEVISION SYSTEMS

In an industry with extra-high compensation pay, Cablevision Systems stands out. Despite its performance in the bottom 20% of total shareholder return over the past five years, the CEO's total annual incentives were among the highest at S&P 500 companies over that same time period. CEO James L. Dolan, son of the company founder, received a $250,000 increase in salary in 2013 based in part on "competitive marketplace." One reason: pay is set "with a reference to the third quartile of the core peer group."[44] In other words, the company looks for guidance based on those 25% that are most highly paid. The dual-class structure and limited board accountability is obviously a factor as well, but pay at such a company in turn inflates pay for everyone in the industry, creating a "competitive marketplace" of self-fulfilling prophecy. Thus, CEOs in the cable industry are overpaid, in part, because other CEOs in the cable industry are overpaid.

environment of overuse of benchmarks. So many companies set a benchmark at the 50th percentile that using this as a benchmark would have been impractical: instead we focused on companies that set a floor of 50% or higher with an upward range. There were 41 S&P 500 companies that ISS reported as having a target of total compensation in that range. In addition there were 11 companies that targeted salaries in that fashion, and received a red flag for this.

Increase in non-performance based pay

Over-reliance on the "the other kids are doing it" excuse is most often evident in proxy statements when increases in salary or perquisites are justified. Every comparison done by a compensation consultant appears to show that salary is lower than peers, and the amount is increased again. The salaries of S&P 500 companies have a disproportionate influence on increases at other companies as well, since other companies point to them as "the other kids" they aspire to be like. Using data supplied by ISS we added the three columns from the summary compensation table that represent, by SEC definition, non-performance linked pay: salary + bonus + all other compensation at two points in time five years apart (generally 2013 and 2008, but for a few companies with unusual FYEs 2014 and 2009). There were 94 companies in which non-performance based pay increased by more than 33% in five years.

FIGURE 14 – SUMMARY COMPENSATION TABLE FROM PROXY MATERIALS FOR NABORS INDUSTRIES

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON-EQUITY INCENTIVE PLAN COMPENSATION	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS	ALL OTHER COMPENSATION	TOTAL
Anthony G. Petrello – Chairman of the Board, President and Chief Executive Officer	2013	$1,700,000	$1,479,000	$18,686,961	$0	$0	$32,460	$46,347,766	**$68,246,187**
	2012	$1,100,000	$17,502,000	$0	$0	$0	$22,944	$1,109,625	**$19,734,569**
	2011	$1,100,000	$13,629,000	$0	$0	$0	$14,793	$1,252,684	**$15,996,477**
R. Clark Wood – Principal Accounting and Financial Officer	2013	$329,310	$190,000	$200,000	$0	$0	$3,679	$161,246	**$884,235**
	2012	$299,328	$196,000	$150,000	$0	$0	$2,471	$136,119	**$783,918**
	2011	$264,714	$150,000	$610,000	$0	$0	$1,491	$133,549	**$1,109,754**
Mark D. Andrews – Corporate Secretary	2013	$200,000	$60,000	$65,000	$0	$0	$0	$84,182	**$409,182**
	2012	$190,000	$65,000	$50,000	$0	$0	$0	$83,114	**$388,114**
	2011	$180,000	$50,000	$30,000	$0	$0	$0	$80,583	**$340,583**

SOURCE: Nabors Industries Ltd., 2014 Proxy Statement (filed Apr. 30, 2014)

* *The table above summarizes the total compensation paid to or earned by each of the named executive officers at Nabors Industries for the fiscal years ended December 31, 2013, December 31, 2012 and December 31, 2011.*

A summary compensation table in company proxy statements provides the most consistent means of comparing compensation across companies. Note that if a bonus meets the IRS definition of performance-based it generally appears in the non-equity incentive plan column.

Each category of pay listed under the summary compensation table shows this inflation over time, and the outliers encourage others. Some practices deserve special attention even when the amounts themselves may seem relatively insignificant given the size of the companies involved.

Companies paying the highest salaries

When Congress passed Section 162(m) of the Internal Revenue code capping tax-deductibility of CEO salary at $1 million—in an attempt to curb increased executive pay—creating what many have called the "performance pay loophole." The rule prohibited corporate tax deductions for executive pay over $1 million unless that pay is rewarded for meeting performance goals. Throughout this report we note many failures of that policy, but here we wish to highlight this: the assumption at the time was that few boards would assent to such an inefficient use of resources to increase salary when so many other forms of compensation were available.

There were at least 23 firms at the time that cut their salary for the explicit reason to place that component of compensation under the tax threshold. For many years CEO salary remained at or close to the $1 million threshold, but over the past decade, even as salaries for most employees remained flat, salaries for CEOs increased. The number of S&P 500 companies with salary over $1 million increased by 55% from 2007 to 2013. In some cases the increase has been incremental each year, over time overall salary has grown significantly. Because incentive compensation has typically been based on a multiple of salary, the salary increases inflate compensation in that category as well. In addition, since these companies appear in other peer groups, increases here contribute to the ratcheting effect.

After an analysis of the salary figures at S&P 500 companies, we awarded an outlier red flag to the 56 companies that paid salaries over $1.5 million.

In his recent book, Dorff makes an intriguing suggestion: that executive compensation should be restructured so that salary would be the primary component of compensation. This interesting idea would address many shareholders concerns discussed in this report. We have some reservations, based on the fact that historically adjustments to compensation models have tended to result in compensation increases: typically with any change there is more "in addition to" than "instead of."

Non performance-based bonuses

Data in the summary compensation table can be confusing and misleading. Figures that appear in the 'bonus' column of the summary compensation table are discretionary cash bonuses awarded not based on any performance criteria. (The figure that most people consider a bonus appears in the 'annual cash incentive' column.) This column in the summary compensation table reflects those that don't qualify under 162(m) and thus come at higher cost to the companies and shareholders. Of the S&P 500 companies, only 74 reported any discretionary bonuses at all, and in some cases these bonuses were not of particular concern to shareholders. For example, should a company offer a discretionary bonus of a few hundred dollars to all eligible employees this column of the Summary Compensation table is where it would be reported. Likewise, our research showed bonuses based on policies such as providing employees with a bonus upon 10 years of employment, or in at least one case a patent bonus. After review of the data we chose the cut-off figure of $150,000 for bonuses to eliminate these reasonable bonuses from our list. There were 59 S&P 500 companies that granted non-performance related cash bonuses of above that amount in FY 2013 and received a red flag in this category.

Pension and tax-advantaged retirement plans

One prism for understanding income inequality in the recent history of the United States is to look at the decline of retirement security for most individuals. In 1983, 62% of employees had defined benefit pensions—today only 17% do. There has been a decline of pensions among CEOs, but at a slower rate and those executives "grandfathered in" have both high pay and long periods of service that create pension value in the millions.

In addition to pensions and 401(k)s available to employees, there are other tax-advantaged retirement saving vehicles available to CEOs. To call the accumulation of wealth "retirement savings" is essentially a misnomer when the amount is well beyond what could be spent in the course of retirement, and thus essentially become tax-advantaged wealth accumulation plans for future generations.

The benefits are provided under multiple complex systems including SERPS (Supplemental Executive Retirement Plans), and special deferred compensation plans (including some that have guaranteed above market interest rates on any savings).

Companies are required to disclose in the summary compensation table only the change in pension value. However, a number of factors can affect the number on a given year (from changes in assumptions, to a critical age change). For that reason, the use of that figure, particularly on a one-year basis, is not a clear indicator. While further information is provided elsewhere in the proxy, time did not permit a case-by-case analysis of the retirement packages for the CEOs of the S&P 500.

However, the Center for Effective Government recently released a list of CEOs who had combined pension and deferred compensation retirement savings of over $50 million.[46] These 14 CEOs received red flags in the analysis.

All other compensation

The SEC-defined 'all other compensation' category, as presented in proxy statements, includes disclosure on perquisites (often known as perks, these special benefits for executives range from family use of company plane to home security systems) as well as other extraordinary payments. In general, we believe that all of the executives in this study are sufficiently well compensated to pay for most items included in this category such as financial planning. However, there are some items that appear in this column that are appropriate, including, for example, 401(k) matches and some relocation costs. Based on the data, we determined to award flags at companies with 'all other compensation' over $500,000 in our data collection. The additional awards sometimes granted under this category, including addition severance and retirement benefits, are also not in the best interests of shareholders. There were 72 companies that met this criterion. Executives are sufficiently well compensated to allow them to cover the cost of many items that the shareholders paid for instead.

Total pay

We added up total pay as disclosed under proxy regulations in the past five proxy statements for all the named executive officers whose names appear in the summary compensation table. The 100 companies that paid the highest of all their peers each reported compensation of over $195 million in their summary compensation tables over the past five years, or close to $40 million per year. There is research that suggests that overall higher pay may in fact correlate with poor performance.

High Executive Pay at the Expense of Long Term Sustainability

This report focuses on executive compensation, not long-term corporate sustainability, and yet we believe one of the greatest problems with the current structure of pay plans is that it may focus executives on the short term to the detriment of long-term shareholders and stakeholders. For these criteria, and others that follow, companies received a flag when they met two levels of concern, one related to pay and one related to sustainable performance.

There were a number of factors that we considered only when coupled with particularly high pay. To create a definition of the most highly paid, As You Sow used three figures. The first was based simply on the highest total compensation as reported in the summary compensation table in the company's most recent annual proxy statement. That figure represents what the board has approved and the shareholders have voted on. For 2013, in order to rank among the top 100, companies had total disclosed pay for CEOs of over $16 million.

We also calculated highest total annual cash incentives over the past five years. (For most companies this meant FYE 2013-2009, but for companies with an atypical fiscal year end date there was some variation and FYE 2014-2010 was used.) These figures should be the most immediately performance driven of any compensation component, and the five-year total should correlate with performance. The 104 companies with the highest total incentive compensation—awarded in addition to salary, options, performance shares, other equity, and other forms of pay—awarded CEOs over $15 million in cash purportedly based on performance.

Another measure that placed companies on the high pay watch list was total NEO pay for the past five years as reported in the summary compensation table. This figure comes closest to representing total outlay.

The factors are detailed below. Ultimately, we believe sustainability requires thoughtful management and care of stakeholders including customers and employees.

The phrase "our employees are our biggest assets" has never been more true than in today's knowledge-driven economy. We believe the treatment of employees is a critical measure of sustainability. The measures below highlight that model.

FIGURE 15 – OVERPAID BY SUSTAINABILITY INDICATORS

COMPANY	SUSTAINABILITY CONCERNS COUPLED WITH HIGH PAY	TOTAL COMP AS % OF REVENUE	RATIO OF CEO TO NEXT	AMONG 100 HIGHEST CEO TO WORKER RATIO	LOW CUSTOMER SATISFACTION, HIGH PAY	SUM
Bed Bath & Beyond Inc.	🚩		🚩	🚩		3
Chipotle Mexican Grill, Inc.	🚩	🚩		🚩		3
Coach, Inc.	🚩	🚩		🚩		3
Discovery Communications		🚩	🚩	🚩		3
Equifax Inc.		🚩	🚩	🚩		3
International Paper Company		🚩	🚩	🚩		3
Mylan, Inc.	🚩	🚩		🚩		3
Ralph Lauren Corporation	🚩	🚩		🚩		3
Wyndham Worldwide		🚩	🚩	🚩	🚩	4
Wynn Resorts Ltd.	🚩		🚩	🚩		3

Overall sustainability

HIP Investor, an acronym that stands for Human Impact + Profit, creates a score they believe provides a leading indicator of systematic, long-term sustainability. HIP Investor's ratings measure the future risk, potential return and net impact on society, people and the environment, across 30 factors including CEO pay, carbon emissions, and employee satisfaction. HIP Investor licenses these ratings to investors to apply to their portfolios to seek stronger financial returns, lower risk, and higher positive impact. Whereas Morningstar rates historical risk and return, HIP Investor rates the future risk and return, much of which is driven by people, natural resources, and other knowable yet ignored factors. The score is based on five Pillars – Health, Wealth, Earth, Equality, Trust, as well as Management Practices and Products/Services. We focused on companies with a HIP Investor score in the bottom 20% that were in the highest 20% of total executive pay over the past five years. There were 14 companies that met this criterion.

Sustainability requires customer satisfaction

One area where short-term emphasis can be most destructive to long-term growth is when the needs of important stakeholders are ignored. A decline in customer satisfaction may reflect short-term emphasis on cost savings, but have long term implications for sustainability. Using third-party reported data, collected by HIP Investor, we identified those with the lowest 20% of customer satisfaction who also showed up on one of our three high pay lists. Fifteen companies met this criterion.

Sustainability requires wise decisions on asset allocation

One of the issues many investors have with high executive compensation is related to use of shareholder assets, which would be better used elsewhere to build a sustainable future for the company. It is our belief that in most cases excessive executive compensation is rarely an appropriate use of assets. ISS ranked companies in the S&P 500 for us based on total NEO compensation as a percentage of revenue. Because these companies are large, this data point may be less alarming than it would be at smaller companies where the issue becomes more obvious. The cut off for the top 20% of S&P 500 companies, based on most recent fiscal year data, was approximately 0.4%.

Ratio of CEO pay to next highest NEO

A firm driven by a CEO who sees himself as the very embodiment of the firm may create an environment that does not promote long-term succession. This qualitative characteristic of CEO ego/power is difficult to measure with a quantitative figure, but studies have found that firms where CEOs earn a disproportionate amount compared to other NEOs may experience lower firm value. ISS calculates CEO pay ratio against criteria including against 2nd highest active executive, average active NEO, and in this case we simply ranked them by this ratio and awarded red flags to the 100 most extreme. Many investors use this internal pay disparity figure as an indicator when evaluating compensation. Higher ratios may create morale issues, and encourage other executives to seek positions elsewhere. Executives hired from inside a company are generally less expensive and more effective than executives hired from outside the company and good transitions are critical for the interests of long-term shareholders.

Ratio of CEO pay to median employee

This data point, required by Dodd-Frank has yet to be implemented by the SEC. However, we believe that this critical information should be publicly disclosed in proxies soon. In advance of formal adoption of the regulation, several independent studies have been conducted, and As You Sow selected a Bloomberg study published in 2013 for creating this data point.[47] Bloomberg calculated multiples based on CEO pay for the most recent fiscal year as of March 2013, using what was at the time the latest publicly available data from proxy statements for CEO pay figures. Bloomberg notes that “most companies don’t disclose their average workers’ pay”, (a considerable understatement) but Bloomberg’s use of U.S. government data on worker compensation by industry provides an appropriate comparison. Bloomberg did not repeat this study in 2014. Several companies on the list, including Oracle, CBS, and Ralph Lauren, had ratios of over 1,000:1. In order to be among the 100 highest companies required a ratio of nearly 300:1.

Third-Party Compensation Ratings

As You Sow also gathered the evaluations of the experts in the field, who do a thorough analysis of pay and performance each using their own proprietary models, and each add some value to an analysis of compensation. We note that there was less overlap than we had initially anticipated. Less than six S&P 500 companies received red flags from all those proprietary analysis noted below.

Institutional Shareholder Services: vote recommendation and performance analysis

ISS’s analysis includes both a relative (compared to peers) and an absolute (compared to shareholder return) evaluation. ISS notes that, “All cases where the quantitative analysis indicates significant misalignment will continue to receive an in-depth qualitative assessment, to determine either the likely cause or mitigating factors.”[48]

FIGURE 16 – COMPANIES MEETING FIVE OR MORE THIRD PARTY CONCERN MEASURES

Anadarko Petroleum Corporation
Apache Corp.
Avon Products Inc.
Broadcom Corp.
Cablevision Systems Corporation
CBS Corporation
Chesapeake Energy Corporation
Chipotle Mexican Grill, Inc.
Citigroup Inc.
Equifax Inc.
Exelon Corporation
Freeport-McMoRan Copper & Gold Inc.
Hasbro Inc.
Hewlett-Packard Company
Hudson City Bancorp, Inc.
McKesson Corporation
Nabors Industries Ltd.
Oracle Corporation
Parker-Hannifin Corporation
Pepco Holdings, Inc.
Ralph Lauren Corporation
Salesforce.com, Inc
The Travelers Companies, Inc.
Vertex Pharmaceuticals Incorporated

ISS also ranks every company as having 'high', 'medium', or 'low' level of concerns on pay for performance. However, our use of ISS data extended beyond the recommendations. As You Sow believes the performance link is of particular importance when pay is particularly high. We evaluated the companies with the highest paid CEOs in the most recent fiscal year to see how ISS analyzed the concern level. Companies received a flag if there was a medium or high pay for performance concern even if ISS recommended in favor at these companies. There were an additional 33 companies that with medium or high pay for performance concern that were also among those with the highest overall pay.

ISS compensation quick score

ISS's QuickScore 3.0 provides a single score that measures a company's level of overall corporate governance risk in four categories including compensation. The score is based on various factors, including analyses of equity plan policies and measures of equity risk mitigation (including stock ownership and anti-hedging policies). Those companies with scores in the bottom 20% received red flags under our analysis.

GMI

GMI (a merger of Governance Metrics International, The Corporate Library, and Audit Integrity) grades companies by categories including pay, board, governance, and ESG overall. The GMI scorecard calculation includes a variety of metrics, some of which are captured elsewhere in this study, but a number of which are not. Items that can influence the GMI grade include such items as a consideration of realized pay (how much the CEO has actually received over a period of time through sales of option shares), clawback provisions, and how equity is vested in a severance situation. Note that this data pre-dates the July 2014 purchase of GMI by MSCI. Those that received red flags were those that received D, E, or F grade.

Glass Lewis

As You Sow also purchased from Glass Lewis a list of the companies that received scores of D or F in their Pay-for-Performance model. According to Glass Lewis their proprietary Pay-for-Performance model evaluates "five indicators of shareholder wealth and business performance: change in operating cash flow, earnings per share growth, total shareholder return, return on equity, and return on assets", and then evaluates compensation of the five NEOs as well as performance compared to those of peers. Glass Lewis states: "Equilar has perfected a method of peer group development based directly on market data and social analytics. Glass Lewis utilizes the Equilar peer group as an invaluable monomer in its proprietary Pay-for-Performance Model." There were a total of 148 companies from the list of S&P 500 companies that received grades of D or F in the 2013 FY.

Shareholder value advisors pay premium analysis for named officers

Steve O'Byrne, at Shareholder Value Advisors conducted an analysis using data from 2008 to 2012 that calculated possible premium (excess) executive pay to top five officers as compared to peers at average performance. This covered the same universe of companies as the IRRCi research. The analysis was conducted with the IRRCi using Execucomp data.

The 100 companies with the highest excess pay premium scores were included in our list. The compensation data used in this case was realizable pay, a different figure from the summary compensation table that mitigates some of the effect of under-water options in the calculus of total executive pay.

Average three year vote

The remaining criterion we used under this category is the average three-year opposition to management advisory votes on compensation. We chose the average to create longer-term context in this category. In the years since the right of shareholders to vote on compensation was established, the level of shareholder support has been generally quite high. For example, in 2014, as of June 21, Semler Bossy calculated the average at 91%. Typically when an S&P 500 company receives majority opposition it is a matter that is covered in the business press and in many cases the company does take some action. Votes that garner support in 80% range represent significant shareholder dissatisfaction but continue to fly under the radar.

CONCLUSION

Everyone wants to be properly compensated for the work they do—it is part of the American dream and bedrock of the capitalist system. CEOs have a difficult job and make decisions daily that could impact millions of lives and should be reasonably rewarded for the productive contributions they make to the economy and society. However, as shown in this report, by every measure, many CEOs are being paid entirely too much and the process which determines CEO pay is broken.

The Dodd-Frank act gives shareholders the right to cast an advisory vote on excessive CEO pay packages that misalign the incentives of executives and owners by voting against these plans and withholding votes for the members of the board's compensation committee. Shareholders need to use this right to make a statement that they want change. In addition, mutual fund owners and pension fund contributors must hold their funds managers accountable and insist that their representatives also exercise this right rigorously.

Members of the boards of directors, many of whom are CEOs or former CEOs themselves, with potentially shared interests in high pay, have a complicit role in escalating compensation. These directors may not actively collude to increase or even maintain such high compensation levels, but the effect is nearly the same as if they had.

Beyond the web of cronyism amongst those responsible for deciding and approving pay packages, this report shows that there is little alignment between pay and performance. Overall, these practices promote an unsustainable system. Too often CEOs have received windfalls based on purely external factors. Many metrics that drive pay are short term (even those considered long-term are typically for three years or less), and provoke decisions with negative long-term impact (from financial engineering to underinvestment in growth).

RECOMMENDATIONS

The good news is that there are ways to curb excessive CEO pay before it becomes an inexorable problem and responsible investors are leading the way in providing reasonable solutions. Shareholders have a responsibility to keep CEOs accountable. They should be compensated appropriately and for the good of the company rather than for their own personal gain or that of the interlocking web of executives who reinforce it.

- **Shareholders should make sure their assets are voted wisely.** Excessive CEO pay is money that is not being distributed as dividends or reinvested in the company.
- **Mutual fund owners and pension contributors must hold their fund managers accountable.** They are legally required to vote their proxies, and with enough shareholder pressure will cast large vote against wasteful pay packages. In addition, mutual funds should develop rigorous guidelines. Because the vast majority of companies have their fiscal year end dates on December 31, the majority of proxies come out at the same time. It is critical to have guidelines in place and to address these issues throughout the year.
- **Shareholders must hold board directors accountable.** If directors design and approve excessive pay packages, sit on multiple boards of companies that overpay, or give complacent approval for inappropriately large packages, shareholders must withhold votes from these directors and remove them from the board.

When the imposing boardroom doors are closed and the heady miasma of collegiality reigns, it seems impossible to effect change and much of this seems out of shareholder's control. But just like citizens voting public officials out of office, shareholders can have their say at the ballot box through the proxy statement, and must wield their influence wisely.

APPENDIX A – 100 MOST OVERPAID CEOS

This table shows the 100 Most Overpaid CEOs, as calculated by combining HIP Investor's regression analysis and As You Sow's indicator analysis. Where companies tied, the company with higher total disclosed compensation was ranked lower.

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION	RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	Nabors Industries Ltd.	Anthony G. Petrello	$68,246,187	51	General Dynamics Corp.	Phebe N. Novakovic	$19,033,073
2	Oracle Corporation	Lawrence J. Ellison	$78,440,657	52	Bed Bath & Beyond Inc.	Steven H. Temares	$19,144,755
3	Freeport-McMoRan Copper & Gold Inc.	Richard C. Adkerson	$55,260,539	53	QUALCOMM Incorporated	Paul E. Jacobs	$20,448,940
4	CBS Corporation	Leslie Moonves	$66,932,581	54	The Boeing Company	W.James McNerney	$23,263,562
5	Discovery Communications, Inc.	David M. Zaslav	$33,349,798	55	Prudential Financial, Inc.	John R. Strangfeld	$16,741,287
6	The Walt Disney Company	Robert A. Iger	$34,321,055	56	Health Care REIT, Inc.	George L. Chapman	$19,843,772
7	CVS Caremark Corporation	Larry J. Merlo	$31,330,162	57	Celgene Corporation	Robert J. Hugin	$20,995,785
8	Viacom, Inc.	Philippe P. Dauman	$37,186,099	58	Halliburton Company	David J. Lesar	$20,865,214
9	Regeneron Pharmaceuticals, Inc.	Leonard S. Schleifer, M.D., Ph.D.	$36,272,665	59	Danaher Corp.	H. Lawrence Culp, Jr.	$19,705,455
10	McKesson Corporation	John H. Hammergren	$25,919,882	60	DaVita HealthCare Partners Inc.	Kent J. Thiry	$17,099,257
11	Ralph Lauren Corporation	Ralph Lauren	$24,537,936	61	Emerson Electric Co.	D.N. Farr	$25,318,952
12	Salesforce.com, Inc	Marc Benioff	$31,333,332	62	Starbucks Corporation	Howard Schultz	$17,242,507
13	Exxon Mobil Corporation	Rex W. Tillerson	$28,138,329	63	The Dow Chemical Company	Andrew Liveris	$20,452,877
14	The Estée Lauder Companies Inc.	Fabrizio Freda	$31,598,679	64	Intercontinental Exchange, Inc.	Jeffrey C. Sprecher	$17,981,470
15	Chesapeake Energy Corporation	Robert D. Lawler	$22,423,367	65	The Procter & Gamble Company	A.G. Lafley	$19,504,353
16	Aetna Inc.	Mark T. Bertolini	$30,725,409	66	PVH Corp.	Emanuel Chirico	$18,364,360
17	Ford Motor Co.	Alan Mulally	$23,204,534	67	Discover Financial Services	David W. Nelms	$21,171,839
18	Hasbro Inc.	Brian Goldner	$27,440,726	68	General Electric Company	Jeffrey Immelt	$19,776,716
19	American Express Company	Kenneth I. Chenault	$21,837,420	69	AFLAC Inc.	Daniel P. Amos	$18,582,055
20	Chipotle Mexican Grill, Inc.	Steve Ells	$25,116,871	70	21st Century Fox	Rupert Murdoch	$28,913,040
21	Comcast Corporation	Brian L. Roberts	$31,367,254	71	Deere & Company	Samuel R. Allen	$19,148,372
22	General Growth Properties, Inc	Sandeep Mathrani	$22,102,608	72	Broadcom Corp.	Scott A. McGregor	$15,947,687
23	AT&T, Inc.	Randall Stephenson	$23,247,167	73	ConocoPhillips	Ryan Lance	$23,437,415
24	Honeywell International Inc.	David M. Cote	$25,973,246	74	Pfizer	Ian C. Read	$18,947,747
25	Abbott Laboratories	Miles D. White	$20,865,668	75	Johnson Controls Inc.	Alex A. Molinaroli	$18,708,791
26	BlackRock, Inc.	Laurence D. Fink	$22,942,256	76	Altria Group Inc.	Martin J. Barrington	$20,139,967
27	The Coca-Cola Company	Muhtar Kent	$20,380,660	77	The Gap, Inc.	Glenn Murphy	$18,726,912
28	Wynn Resorts Ltd.	Stephen A. Wynn	$19,601,381	78	L Brands, Inc.	Leslie H. Wexner	$15,875,922
29	Schlumberger Limited	Paal Kibsgaard	$22,837,540	79	Wyndham Worldwide Corporation	Stephen P. Holmes	$13,538,932
30	Bristol-Myers Squibb Company	Lamberto Andreotti	$20,847,746	80	State Street Corporation	Joseph L. Hooley	$15,841,234
31	Ameriprise Financial, Inc.	James M. Cracchiolo	$19,752,269	81	Fidelity National Information Services, Inc.	Frank R. Martire	$14,144,081
32	Lockheed Martin Corporation	Marillyn A. Hewson	$25,155,799	82	ACE Limited	Evan G. Greenberg	$17,785,347
33	Roper Industries Inc.	Brian D. Jellison	$21,368,796	83	Exelon Corporation	Christopher M. Crane	$17,191,698
34	Citigroup Inc.	Michael Corbat	$17,558,119	84	International Business Machines Corporation	Virginia M. Rometty	$13,965,677
35	The Goldman Sachs Group, Inc.	Lloyd C. Blankfein	$19,928,813	85	Simon Property Group Inc.	David Simon	$15,695,528
36	Time Warner Inc.	Glenn A. Britt	$32,501,715	86	The Goodyear Tire & Rubber Company	Richard J. Kramer	$19,190,500
37	Visa Inc.	Charles W. Scharf	$24,201,851	87	Baxter International Inc.	Robert Parkinson	$16,162,128
38	Chevron Corporation	John S. Watson	$24,017,303	88	Electronic Arts Inc.	Andrew Wilson	$13,975,381
39	Anadarko Petroleum Corporation	R.A Walker	$16,919,429	89	Parker-Hannifin Corporation	Donald E. Washkewicz	$15,005,720
40	United Technologies Corp.	Louis Chenevert	$20,274,316	90	Expeditors International of Washington Inc.	Peter J. Rose	$13,541,260
41	Wells Fargo & Company	John G. Stumpf	$19,320,409	91	Hess Corporation	John B. Hess	$16,153,659
42	Hewlett-Packard Company	Margaret C. Whitman	$17,643,243	92	Colgate-Palmolive Co.	Ian Cook	$15,991,351
43	Tenet Healthcare Corp.	Trevor Fetter	$22,734,127	93	Time Warner Cable Inc.	Glenn A. Britt	$14,177,563
44	Affiliated Managers Group Inc.	Sean M. Healey	$20,007,855	94	Thermo Fisher Scientific, Inc.	Marc Casper	$16,168,880
45	The Travelers Companies, Inc.	Jay S. Fishman	$18,087,994	95	Prologis, Inc.	Hamid R. Moghadam	$15,190,029
46	Capital One Financial Corporation	Richard D. Fairbank	$18,294,525	96	CONSOL Energy Inc.	J. Brett Harvey	$15,170,492
47	Cablevision Systems Corporation	James L. Dolan	$15,987,539	97	Raytheon Co.	William Swanson	$17,146,254
48	Yahoo! Inc.	Marissa A. Mayer	$24,935,712	98	Vertex Pharmaceuticals Incorporated	Jeffrey M. Leiden	$13,126,474
49	The TJX Companies, Inc.	Carol Meyrowitz	$22,514,033	99	Invesco Ltd.	Martin L. Flanagan	$14,381,762
50	Northrop Grumman Corporation	Wesley G. Bush	$18,656,412	100	Nike, Inc.	Mike Parker	$14,678,349

APPENDIX B – SUPPORT FOR SAY-ON-PAY RESOLUTIONS AT MUTUAL FUND FAMILIES

This table summarizes the say-on-pay votes of over 100 mutual fund families using two different measures of support. It shows the percent of all votes cast for, against, and abstained on the 99 say-on-pay resolutions that came to vote at the 100 companies included in this survey during the 2014 proxy season. It also shows a 'unique' vote count, and corresponding percent support, where a vote on each of the 99 resolutions is only counted once across a fund family, regardless of the number of individual funds holding that security within the fund family. For example, Chevron's say-on-pay resolution was opposed by each of five funds in the Aberdeen fund family, and Baxter International's say-on-pay resolution was supported by three Aberdeen funds. Yet each represents only one unique vote in the final tally. The unique vote count method more accurately reflects the overall stance of a fund family towards say on pay at the 100 companies surveyed and is therefore used in the tables that appear in the body of the report.

		ALL VOTES				UNIQUE VOTES				
FUND FAMILY	NUMBER OF COMPANIES	ABSTAIN	AGAINST	FOR	SUPPORT PERCENTAGE	ABSTAIN	AGAINST	FOR	SUPPORT PERCENTAGE	NUMBER OF UNIQUES VOTES CAST
Aberdeen	22		22	33	60%		6	16	73%	22
Advisors	73	1	41	157	79%	1	25	61	70%	87
Alger	52		28	296	91%		6	46	88%	52
Alliancebernstein	97	16	155	722	81%	1	22	74	76%	97
Allianz	97		119	763	87%		43	93	68%	136
American	71		161	303	65%		36	49	58%	85
American Beacon	26		5	21	81%		5	21	81%	26
American Century	87		189	833	82%		16	71	82%	87
Ariel	12		3	10	77%		2	10	83%	12
Artisan	21		2	26	93%		2	20	91%	22
Aston	54		13	81	86%		9	46	84%	55
AXA	96	3	58	220	78%	1	25	81	76%	107
Baron	13		5	14	74%		4	9	69%	13
Berkshire	5			5	100%			5	100%	5
Blackrock	96		38	909	96%		5	91	95%	96
BMO	27		9	22	71%		9	18	67%	27
Bny Mellon	95		58	173	75%		24	71	75%	95
Boston Common	14		4	10	71%		4	10	71%	14
Boston Trust & Walden Funds	20		14	49	78%		5	15	75%	20
Bridgeway	61		22	83	79%		14	47	77%	61
Calamos	73			221	100%			73	100%	73
Calvert	96		80	174	69%		32	64	67%	96
Capstone	1			1	100%			1	100%	1
Cohen & Steers	37		9	97	92%		3	34	92%	37
Columbia	97		410	855	68%		38	60	61%	98
Davis	25		10	55	85%		5	20	80%	25
Delaware	62		34	268	89%		9	53	85%	62
Dimensional	95		199	753	79%		20	75	79%	95
Dodge & Cox	12			35	100%			12	100%	12
Domini	22		22		0%		22		0%	22
Dreyfus	97		176	592	77%		25	72	74%	97
DWS	96		94	481	84%		18	78	81%	96
Eagle	37		2	38	95%		2	35	95%	37
Eaton Vance	74		73	243	77%		28	63	69%	91
Federated	96	1	66	353	84%	1	20	79	79%	100
Fidelity	98		359	2862	89%		30	94	76%	124
First Eagle	10		3	18	86%		1	9	90%	10
FMI	4		4	1	20%		3	1	25%	4
Franklin Templeton	86		144	477	77%		28	68	71%	96
Gabelli	65	209		12	5%	63		2	3%	65
GE	96		51	417	89%		19	91	83%	110
GMO	58		25	158	86%		9	49	84%	58
Goldman Sachs	95		49	531	92%		19	90	83%	109
Green Century	36	44			0%	36			0%	36
Guidestone	87		17	260	94%		13	86	87%	99

Continued on next page

FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES: ABSTAIN	ALL VOTES: AGAINST	ALL VOTES: FOR	ALL VOTES: SUPPORT PERCENTAGE	UNIQUE VOTES: ABSTAIN	UNIQUE VOTES: AGAINST	UNIQUE VOTES: FOR	UNIQUE VOTES: SUPPORT PERCENTAGE	NUMBER OF UNIQUES VOTES CAST
Harbor	42		2	49	96%		2	40	95%	42
Hartford	96		110	628	85%		39	80	67%	119
Ing/Voya	97		72	672	90%		12	86	88%	98
Integrity	18		4	21	84%		4	14	78%	18
Invesco	97	2	109	516	82%	1	33	80	70%	114
Janus	94		84	451	84%		18	76	81%	94
John Hancock	97		173	1056	86%		28	90	76%	118
JP Morgan	97		92	1047	92%		17	84	83%	101
Lazard	38		16	77	83%		8	30	79%	38
Legg Mason	97	1	65	457	87%	1	29	89	75%	119
Liberty	39		6	40	87%		6	33	85%	39
Longleaf	4			5	100%			4	100%	4
Lord Abbett	75		3	248	99%		2	73	97%	75
Mainstay	95	2	112	629	85%	1	18	85	82%	104
Managers	77		41	160	80%		22	66	75%	88
Massmutual	97		131	462	78%		42	96	70%	138
Metropolitan	96		42	245	85%		26	86	77%	112
MFA	69		171	856	83%		13	56	81%	69
MMA Praxis	66		37	55	60%		29	37	56%	66
Morgan Stanley	92		31	147	83%		22	70	76%	92
Munder	96		40	77	66%		39	65	63%	104
Nationwide	97		63	420	87%		30	93	76%	123
Natixis	60		17	98	85%		14	51	78%	65
Neuberger Berman	72	1	54	203	79%	1	21	56	72%	78
Northern	96		12	326	96%		11	95	90%	106
Nuveen	97		100	529	84%		18	80	82%	98
Oakmark	16			25	100%			16	100%	16
Oppenheimer	71		39	277	88%		12	59	83%	71
Parnassus	10		3	20	87%		2	8	80%	10
PAX	32		36	46	56%		18	16	47%	34
Pimco	15		2	25	93%		1	14	93%	15
Pioneer	66		41	269	87%		8	58	88%	66
Portfolio 21	6			6	100%			6	100%	6
Primecap Odyssey	23		1	40	98%		1	22	96%	23
Principal	97		135	662	83%		33	88	73%	121
Prudential	96		232	497	68%		37	76	67%	113
Putnam	79		197	864	81%		18	61	77%	79
Quaker	14		9	15	63%		5	9	64%	14
Royce	14	17	1	12	40%	5	1	8	57%	14
RS	96		23	127	85%		18	79	81%	97
Russell	94		221	352	61%		41	53	56%	94
Schroder	72		9	67	88%		9	63	88%	72
Schwab	96		297	474	61%		39	57	59%	96
Scout	15		5	12	71%		4	11	73%	15
SEI	96		181	823	82%		18	78	81%	96
State Street	95		19	80	81%		19	76	80%	95
State Street (Iam Shares Fund)	77		29	48	62%		29	48	62%	77
Steward	86			91	100%			86	100%	86
Sunamerica	86		41	324	89%		13	73	85%	86
T Rowe	96		79	740	90%		12	84	88%	96
TCW	38			80	100%			38	100%	38
Thornburg	14			21	100%			14	100%	14
Thrivent	97		92	669	88%		19	82	81%	101
Tiaa-Cref	97	8	66	1139	94%	1	5	91	94%	97
Transamerica	94	1	86	622	88%	1	26	85	76%	112
UBS	33		7	166	96%		1	32	97%	33
USAA	96		101	498	83%		18	78	81%	96
Valic	92		61	394	87%		14	78	85%	92
Vanguard	99		353	2439	87%		15	84	85%	99
Victory	35		7	92	93%		3	32	91%	35
Virtus	90		42	255	86%		16	76	83%	92
Waddell & Reed	42		4	106	96%		3	39	93%	42
Wells Fargo	96		104	573	85%		18	78	81%	96
William Blair	27		4	35	90%		4	23	85%	27
Wisdomtree	91		98	354	78%		22	69	76%	91

APPENDIX C – HIP INVESTOR REGRESSION ANALYSIS

This table shows the 100 Most Overpaid, as calculated by just the HIP Investor regression analysis.

Executive pay data series included:

- Raw data: Simply looking at every ISS-identified executive's pay package, in each year, as a single data point.
- CEO: The raw data is filtered based on ISS identification of the CEO. This series was supplemented using a Thomson Reuters Asset4 data series that captures the single largest pay package for each (company, year) pair. If ISS did not report a CEO for a given pair, and that pair was available in the Asset4 series, the Asset4 data was included.
- Summed: Aggregating all money paid out to ISS-identified executives for the year.
- Averaged: Dividing the previous summed datapoint by the number of distinct executives for the year.

Each type of executive pay could be reported in any year from 2007-2014, though not every company was reported for every year.

Financial performance series included:

- Return On Invested Capital (cashflow available to pay both debt and equity capital owners, adjusted for tax effects, divided by the total value of that capital).
- Total Return (capital gains and dividends) on the company's primary equity.

Both performance factors were calculated across one-year, three-year, and five-year windows, trailing behind each possible pay year. Thus, data was considered as far back as 2002 (for the five-year window trailing pay data from 2007). With four pay series, and six performance series, a total of 24 total regression analyses were calculated.

Each regression identifies a best-fit line for predicting pay based on performance. Although we, like many other analysts, find at best weak links between pay and performance, the usual justification claimed for high executive pay is that they are connected to profits and capital appreciation for the shareholders who foot the bill. We grant the assumption that pay should be determined by performance, and then use a basic statistical technique to map actual performance outcomes to predicted levels of pay. This prediction is compared to actual pay, to see how much the package exceeded such a prediction. Those with highest excess are ranked in the table below.

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION	EXCESS
1	Oracle Corporation	Lawrence J. Ellison	$78,440,657	$66,502,147
2	Nabors Industries Ltd.	Anthony G. Petrello	$68,246,187	$57,044,669
3	CBS Corporation	Leslie Moonves	$66,932,581	$54,625,749
4	Freeport-McMoRan Copper & Gold Inc.	Richard C. Adkerson	$55,260,539	$43,822,727
5	Viacom, Inc.	Philippe P. Dauman	$37,186,099	$24,992,602
6	Regeneron Pharmaceuticals, Inc.	Leonard S. Schleifer, M.D., Ph.D.	$36,272,665	$22,719,955
7	The Walt Disney Company	Robert A. Iger	$34,321,055	$22,180,663
8	Discovery Communications, Inc.	David M. Zaslav	$33,349,798	$20,866,901
9	Time Warner Cable Inc.	Jeffrey L. Bewkes	$32,501,715	$20,363,853
10	CVS Caremark Corporation	Larry J. Merlo	$31,330,162	$19,384,399
11	The Estée Lauder Companies Inc.	Fabrizio Freda	$31,598,679	$19,255,773
12	Comcast Corporation	Brian L. Roberts	$31,367,254	$19,163,262
13	Aetna Inc.	Mark T. Bertolini	$30,725,409	$18,746,643
14	Salesforce.com, Inc	Marc Benioff	$31,333,332	$18,523,156
15	21st Century Fox Inc.	K. Rupert Murdoch	$28,913,040	$16,742,060
16	Exxon Mobil Corporation	Rex W. Tillerson	$28,138,329	$16,342,331
17	Hasbro Inc.	Brian Goldner	$27,440,726	$15,523,421
18	Honeywell International Inc.	David M. Cote	$25,973,246	$13,934,306
19	Emerson Electric Co.	David N. Farr	$25,318,952	$13,468,141
20	McKesson Corporation	John H. Hammergren	$25,919,882	$13,332,578
21	Lockheed Martin Corporation	Marillyn A. Hewson	$25,155,799	$13,288,088
22	Yahoo! Inc.	Marissa A. Mayer	$24,935,712	$13,114,635
23	Chipotle Mexican Grill, Inc.	Steve Ells	$25,116,871	$12,530,876
24	Ralph Lauren Corporation	Ralph Lauren	$24,537,936	$12,178,175
25	Chevron Corporation	John S. Watson	$24,017,303	$12,115,527
26	Visa Inc.	Charles W. Scharf	$24,201,851	$12,019,040

Continued on next page

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION	EXCESS
27	ConocoPhillips	Ryan M. Lance	$23,437,415	$11,702,536
28	AT&T, Inc.	Randall Stephenson	$23,247,167	$11,350,282
29	Schlumberger Limited	Paal Kibsgaard	$22,837,540	$11,277,514
30	The Boeing Company	W. James McNerney, Jr.	$23,263,562	$11,234,207
31	Chesapeake Energy Corporation	Robert D. Lawler	$22,423,367	$11,198,962
32	Eaton Corporation	Alexander M. Cutler	$23,097,458	$11,058,017
33	BlackRock, Inc.	Laurence D. Fink	$22,942,256	$10,956,047
34	Ford Motor Co.	Alan Mulally	$23,204,534	$10,803,569
35	Tenet Healthcare Corp.	Trevor Fetter	$22,734,127	$10,620,173
36	General Growth Properties, Inc	Sandeep Mathrani	$22,102,608	$10,475,675
37	The TJX Companies, Inc.	Carol Meyrowitz	$22,514,033	$10,062,726
38	American Express Company	Kenneth I. Chenault	$21,837,420	$9,691,814
39	Roper Industries Inc.	Brian D. Jellison	$21,368,796	$9,291,543
40	Cisco Systems, Inc	John T. Chambers	$21,049,501	$9,282,554
41	Halliburton Company	David J. Lesar	$20,865,214	$9,232,303
42	Celgene Corporation	Robert J. Hugin	$20,995,785	$8,952,640
43	Abbott Laboratories	Miles D. White	$20,865,668	$8,894,674
44	Discover Financial Services	David W. Nelms	$21,171,839	$8,682,970
45	The Dow Chemical Company	Andrew Liveris	$20,452,877	$8,679,376
46	Bristol-Myers Squibb Company	Lamberto Andreotti	$20,847,746	$8,561,434
47	QUALCOMM Incorporated	Paul E. Jacobs	$20,448,940	$8,517,782
48	The Coca-Cola Company	Muhtar Kent	$20,380,660	$8,349,364
49	Navient Corporation	John (Jack) F. Remondi	$20,179,567	$8,338,473
50	United Technologies Corp.	Louis Chenevert	$20,274,316	$8,270,102
51	The Goldman Sachs Group, Inc.	Lloyd C. Blankfein	$19,928,813	$8,249,480
52	General Electric Company	Jeffrey R. Immelt	$19,776,716	$8,028,745
53	Affiliated Managers Group Inc.	Sean M. Healey	$20,007,855	$7,968,164
54	Altria Group Inc.	Martin J. Barrington	$20,139,967	$7,958,758
55	Health Care REIT, Inc.	George L. Chapman	$19,843,772	$7,743,604
56	Danaher Corp.	H. Lawrence Culp, Jr.	$19,705,455	$7,719,556
57	Ameriprise Financial, Inc.	James M. Cracchiolo	$19,752,269	$7,598,869
58	The Goodyear Tire & Rubber Company	Richard J. Kramer	$19,190,500	$7,544,908
59	Wynn Resorts Ltd.	Stephen A. Wynn	$19,601,381	$7,478,295
60	The Procter & Gamble Company	A.G. Lafley	$19,504,353	$7,471,126
61	Deere & Company	Samuel R. Allen	$19,148,372	$7,309,224
62	General Dynamics Corp.	Phebe N. Novakovic	$19,033,073	$7,281,356
63	Wells Fargo & Company	John G. Stumpf	$19,320,409	$7,243,381
64	Bed Bath & Beyond Inc.	Steven H. Temares	$19,144,755	$6,914,240
65	Pfizer	Ian C. Read	$18,947,747	$6,852,093
66	The Allstate Corporation	Thomas J. Wilson	$18,673,723	$6,847,249
67	AFLAC Inc.	Daniel P. Amos	$18,582,055	$6,831,152
68	Johnson Controls Inc.	Stephen A. Roell	$18,708,791	$6,813,596
69	Northrop Grumman Corporation	Wesley G. Bush	$18,656,412	$6,685,074
70	Lowe's Companies, Inc.	Robert A. Niblock	$18,714,193	$6,574,128
71	The Gap, Inc.	Glenn Murphy	$18,726,912	$6,440,459
72	Citigroup Inc.	Michael Corbat	$17,558,119	$6,377,781
73	Capital One Financial Corporation	Richard D. Fairbank	$18,294,525	$6,270,526
74	Hartford Financial Services Group Inc.	Liam McGee	$17,670,315	$6,239,694
75	Hewlett-Packard Company	Margaret C. Whitman	$17,643,243	$6,161,776
76	Omnicom Group Inc.	John D. Wren	$18,069,373	$6,114,742
77	Intercontinental Exchange, Inc.	Jeffrey C. Sprecher	$17,981,469	$6,026,706
78	The Travelers Companies, Inc.	Jay S. Fishman	$18,087,994	$5,963,371
79	PVH Corp.	Emanuel Chirico	$18,364,360	$5,936,456
80	Exelon Corporation	Christopher M. Crane	$17,191,698	$5,852,767
81	ACE Limited	Evan G. Greenberg	$17,785,347	$5,745,502
82	Union Pacific Corporation	John J. Koraleski	$17,809,887	$5,646,989
83	Raytheon Co.	William H. Swanson	$17,146,254	$5,260,959
84	Anadarko Petroleum Corporation	R.A Walker	$16,919,429	$5,112,688
85	Johnson & Johnson	Alex Gorsky	$16,910,960	$4,949,753
86	Anthem, Inc.	Joseph R. Swedish	$16,979,927	$4,948,323
87	DaVita HealthCare Partners Inc.	Kent J. Thiry	$17,099,257	$4,931,237
88	Prudential Financial, Inc.	John R. Strangfeld	$16,741,287	$4,837,179
89	Hess Corporation	John B. Hess	$16,153,659	$4,719,029
90	Starbucks Corporation	Howard Schultz	$17,242,507	$4,661,371
91	Coca-Cola Enterprises	John F. Brock	$17,021,019	$4,632,330
92	PPG Industries, Inc.	Charles E. Bunch	$16,913,230	$4,581,157
93	Baxter International Inc.	Robert L. Parkinson, Jr.	$16,162,128	$4,340,173
94	3M Company	Inge G. Thulin	$16,368,708	$4,334,072
95	Thermo Fisher Scientific, Inc.	Marc N. Casper	$16,168,880	$4,222,554
96	Chubb Group of Insurance Companies	John D. Finnegan	$16,249,400	$4,166,076
97	Broadcom Corp.	Scott A. McGregor	$15,947,687	$4,097,536
98	Valero Energy Corp.	William R. Klesse	$15,812,582	$4,081,036
99	State Street Corporation	Joseph L. Hooley	$15,841,234	$4,079,512
100	Cablevision Systems Corporation	James L. Dolan	$15,987,539	$4,061,425

APPENDIX D – DIRECTORS ON MULTIPLE S&P 500 COMPENSATION COMMITEES

This table lists directors who serve on the compensation committees of multiple S&P 500 companies, as well as their professional affiliation.

DIRECTOR	COMPENSATION COMMITTEES AT S&P 500 COMPANIES	OTHER BOARDS	PRIMARY AFFILIATION
Bethune, Gordon M.	Honeywell International Inc., Prudential Financial Inc.	Sprint Corporation	Retired CEO Continental Airlines, Managing Director of g-b1 Partners
Biondi, Jr., Frank J.	Amgen Inc., Hasbro Inc.	Cablevision Systems Coporation, Seagate Technology PLC, RealD Inc.	Senior Managing Director of WaterView Advisors LLC
Bollenbach, Stephen F.	Mondelez International Inc., Time Warner Inc.	KB Home, Macy's, Inc., Moelis & Company	Former Co-Chairman and CEO of Hilton Hotels Corporation
Chen, John S.	The Walt Disney Company, Wells Fargo & Company	Blackberry Limited	Executive Chair & CEO of Blackberry, Ltd,
Coffman, Vance D.	Amgen Inc., Deere & Company	3M Company	Retired Chairman of Lockheed Martin Corporation
Dorman, David W.	CVS Caremark Corporation, Yum! Brands, Inc.	eBay Inc.	Founding Partner, Centerview Capital; Non-Executive Chairman of the Board of CVS Caremark Corporation
Duberstein, Kenneth M.	The Boeing Company, The Travelers Companies, Inc.	Mack-Cali Realty Corporation	Chairman and CEO of The Duberstein Group Inc
Gayle, Helene D.	The Coca-Cola Company, The Colgate-Palmolive Company		President & CEO of CARE USA
Gerber, Murry	Blackrock Inc., Halliburton Company	United States Steel Corporation	Retired Eecutive Chairman of the Board of EQT Corporation
Gordon, Bruce S.	CBS Corporation, Northrop Grumman Corporation		President and CEO of Actuant Corporation
Johnson, James A.	The Goldman Sachs Group, Inc., Target Corporation		Chairman, Johnson Capital Partners
Johnson, Suzanne Nora	Pfizer, Visa Inc.		Retired Vice Chairman, Goldman Sachs Group
Kangas, Edward	Tenet Healthcare Corp., United Technologies Corp.	Hovnanian Enterprises, Inc., Intelsat S.A., Intuit Inc.	Retired CEO of Deloitte Touche Tohmatsu
Lechleiter, John C.	Ford Motor Co., Nike, Inc.		Chairman, President and Chief Executive Officer, Eli Lilly and Company
Marshall, Siri S.	Ameriprise Financial, Inc., Equifax, Inc.		Retired Senior Vice President, General Counsel & Secretary of General Mills, Inc.
McNerney, Jr., W. James	International Business Machines Corporation, The Procter & Gamble Company		Chairman and CEO of The Boeing Company
Myers, Richard B.	Aon plc, Deere & Company, Northrop Grumman Corporation, United Technologies Corp.		Chairman of the Joint Chiefs of Staff, the U.S. military's highest ranking office
Osborn, William A.	Abbott Laboratories, General Dynamics Corp.	Caterpillar Inc.	Retired Chairman and CEO of Northern Trust Corporation and The Northern Trust Company
Palmisano, Samuel J.	American Express Company, Exxon Mobil Corporation		Former Chairman, President, and CEO of IBM
Pelham, Judith C.	Amgen Inc., Health Care REIT Inc.		President Emeritus of Trinity Health
Rodin, Judith	Comcast Corporation, Citigroup Inc.		Rockefeller Foundation President
Sharer, Kevin	Chevron Corporation, Northrop Grumman Corporation		Senior Lectuterer of Business Administration at Harvard Business School, Former CEO Amgen
Truel, Javier	Nielsen Holdings N.V., Starbucks Corporation		Retired Vice Chairman of Colgate-Palmolive Company
Tese, Vincent	Cablevision Systems Corporation, Intercontinental Exchange, Inc.		Chairman of Bond Street Holdings LLC & Executive Chairman of Florida Community Bank
Walter, Robert D.	American Express Company, Yum! Brands, Inc.	Nordstrom, Inc.	Founder and Former CEO and Chair of Cardinal Health Inc
Weldon, William C.	CVS Caremark Corporation, Exxon Mobil Corporation, JPMorgan Chase & Co	Chubb Group of Insurance Companies	Retired Chairman and CEO of Johnson & Johnson
Williams, Ronald A.	American Express Company, The Boeing Company		Chairman and CEO of RW2 Enterprises, LLC, former CEO Aetna
Zeitlin, Jide	Affiliated Managers Group Inc., Coach, Inc.		Private investor; retired partner at Goldman Sachs

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