



THE 100 MOST OVERPAID CEOs

Are Fund Managers
Asleep at The Wheel?

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- 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.
- Many state pension funds responded to requests for information, some with impressiveness, thoroughness, and speed. This element of the report will be discussed in more depth later, but I want to thank the public servants doing anonymous but important work.
- Robert Reich, whose writings have informed us for years, and whose most recent work *Saving Capitalism: For the Many, Not the Few* provides the most cogent articulation I've read on the structure and flaws of the current economic system.
- Nell Minow, a long-time leader in the field of governance, for her special emphasis and encouragement on holding compensation committee members accountable.
- Good Jobs First created a new database this year which for the first time will allow anyone easy access to all fined violations from public agencies. We were grateful to use this service, and urge others to make use of it as well.
- Consulting firm EVA Dimensions furnished us a ranking of the S&P 500 companies through its Corporate Performance Index (CPI). EVA Dimensions has been a leader in highlighting flaws with performance measurements based solely on TSR, and promotes greater emphasis on EVA (operating profit less an interest charge on capital).
- CtW Investment Group and AFSCME were also exceptionally helpful in providing data for the report.

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EXECUTIVE SUMMARY

CEO pay grew an astounding 997% over the past 36 years, greatly outpacing the growth in the cost of living, the productivity of the economy, and the stock market, disproving the claim that the growth in CEO pay reflects the “performance” of the company, the value of its stock, or the ability of the CEO to do anything but disproportionately raise the amount of his or her pay.¹

Last year we highlighted the 100 most overpaid CEOs of S&P 500 companies, and the votes of large shareholders, including mutual funds and pension funds, on their pay packages.

What has changed since that report? Already excessive pay increased, but prospects for improved disclosure and greater oversight have increased somewhat as well. In the last year, pay for S&P 500 CEOs has risen (by some estimates up to 15.6%), yet the value of the shares of these companies actually declined slightly- despite massive expenditures of corporate funds on stock buybacks designed to increase the value of those shares. After five years of delay the SEC finally adopted rules that will allow shareholders to better understand the gap between the pay of the CEO and other employees of the corporation. The SEC is also moving forward on rules that will help expose the gap between the pay of the CEO and the performance of the companies' shares in the stock market. Furthermore, some mutual funds and pension funds began to better exercise their fiduciary responsibility by more frequently voting down some of the most outrageous CEO pay packages.

As we noted in our prior report, the system in place to govern corporations has failed in the area of executive compensation. Like all the best governance systems, corporate governance relies on a balance of powers. That system envisions directors representing shareholders and guarding the company's assets from waste. It also envisions shareholders holding companies and executives accountable.

This governance system comes from a time when it was assumed that unhappy investors would simply sell their stakes if sufficiently dissatisfied with the governance of a company. It reflects a time when there were fewer intermediaries between beneficial holders and corporate executives. However, today more and more investors own shares through mutual funds, often investing in S&P 500 index funds. Individual investors are not in a position to sell their stakes in a company. The funds themselves are subject to a number of well-documented conflicts of interest and to what economists refer to with the oxymoronic-sounding term “rational apathy,” to reflect the expense of oversight in comparison to a pro rata share of any benefits.

The pay packages analyzed in this report belong to the CEOs of 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.

CEO compensation as it is currently structured does not work: rather than incentivize sustainable growth it increases disproportionately by every measure, and receives no consequences. 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.”² We note that the downside, which could include such features as environmental costs, may be limited for the individual, and instead borne by the larger society.

Paying one individual with excessive wealth unrelated to incentives or results creates a false narrative that such compensation is justified and earned. It undermines essential premises of capitalism: the robust ‘invisible hand’ of the market as well as the confidence of those who entrust capital to third parties. 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 frontline employees.

The task we set before ourselves in writing this report was to identify the 100 most overpaid CEOs in the S&P 500.

In undertaking this project we focused not just on absolute dollars but also on those practices we believe to have contributed to bloated compensation packages.

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

Shareholders now supposedly have the right, since the enactment of Dodd-Frank, to cast an advisory vote on compensation packages. However, in today's world, most shareholders have their shares held and voted by a financial intermediary (i.e., a mutual fund, an ETF, a pension fund, a financial manager, or people whose full-time job is to watch the companies they invest in and monitor the performance of their boards, their CEOs, and their compensation).

A key element of the report has been **to analyze how mutual funds and pension funds voted on these pay packages. This year we vastly expanded the list of funds we looked at.** In response to excessive and problematic CEO pay packages, everyone has the power to 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.

Finally, again this year we looked **at the directors who serve on the compensation committees of these boards.**

KEY FINDINGS

Of the top 25 most overpaid CEOs, 11 made the list for the second year in a row. These rankings are based on a statistical analysis of company financial performance with a regression to identify predicted pay, as well as an innovative index developed by As You Sow that considers over 30 additional factors.

Many of the overpaid CEOs are insulated from shareholder votes, suggesting that shareholder scrutiny can be an important deterrent to outrageous pay packages. A number of the most overpaid CEOs are at companies with unequal voting structures and/or triennial votes, so shareholders did not have the opportunity to vote this year on the extraordinary packages. While the say-on-pay law allows less frequent votes, shareholders have not supported the practice and the vast

FIGURE 1 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	Discovery Communications Inc.	David Zaslav	\$156,077,912
2	Oracle Corporation*	Safra A Catz/Mark Hurd	\$75,335,428
3	CBS Corporation	Leslie Moonves	\$57,175,645
4	Chipotle Mexican Grill, Inc.	Steve Eills & Monty Moran	\$57,077,473
5	Microsoft Corporation	Satya Nadella	\$84,308,755
6	Vertex Pharmaceuticals Incorporated	Jeffrey Leiden	\$36,635,468
7	Yahoo! Inc.	Marissa Mayer	\$42,083,508
8	Exxon Mobil Corporation	Rex Tillerson	\$33,096,312
9	QUALCOMM, Inc.	Steven Mollenkopf	\$60,740,592
10	General Electric Company	Jeffrey Immelt	\$37,250,774
11	salesforce.com, inc.	Marc Benioff	\$39,907,534
12	Honeywell International Inc.	David Cote	\$29,142,121
13	The Walt Disney Company	Robert Iger	\$46,497,018
14	Bristol-Myers Squibb Company	Lamberto Andreotti	\$27,062,382
15	Viacom, Inc.	Philippe Dauman	\$44,334,858
16	JPMorgan Chase & Co.	James Dimon	\$27,701,709
17	Prudential Financial Inc.	John Strangfeld	\$37,483,092
18	The Coca-Cola Company	Muhtar Kent	\$25,224,422
19	Regeneron Pharmaceuticals Inc.	Leonard Schleifer	\$41,965,424
20	CVS Health Corporation	Larry Merlo	\$32,350,733
21	Target Corporation	Brian Cornel	\$28,164,024
22	Wynn Resorts, Limited	Stephen Wynn	\$25,322,854
23	Allergan PLC (formerly Actavis)	Brenton L. Saunders	\$36,613,829
24	Comcast Corporation	Brian Roberts	\$32,961,056
25	Bed Bath & Beyond Inc.	Steven H. Temaras	\$19,116,040

* Data on Oracle was further complicated by its leadership transition. The data received by ISS for the regression analysis came after Catz and Hurd became co-CEOs but prior to the most recent proxy statement. Had the regression used the \$67.3 million figure for Ellison as sole CEO (from proxy statement issued 9/23/2014), the company would still have placed high on the overpaid ranking though not in precisely the same location.

A primary goal of the report is to focus on mutual fund voting data. This data is disclosed on an annual basis according to a proxy season that covers shareholder meetings held from July 1 of 2014 to June 30 of 2015. We note that some of these companies have issued new proxy statements since that time with compensation figures that do not match those above.

majority of companies hold annual votes on pay. We believe that the fact that our list of the top 25 overpaid CEOs includes several companies that do not hold annual votes on pay implies that such insulated companies are more willing to flaunt best practices on pay and performance.

The most overpaid CEOs represent an extraordinary misallocation of assets. Regression analysis showed 17 CEOs with compensation at least \$20 million more in 2014 than they would have garnered if their pay had been aligned with performance.

Shareholder votes on pay are wide-ranging and inconsistent, with pension funds engaging in more rigorous analysis. This report, representing the broadest survey of institutional voting ever done on the topic, shows that pension funds are more likely to vote against overpaid packages than mutual funds. Using various state disclosure laws, we were able to collect data from over 30 pension funds. The data shows support for overpaid CEOs ranging from approval of 24% - indicating voting practices based on rigorous compensation analysis - to 79%.

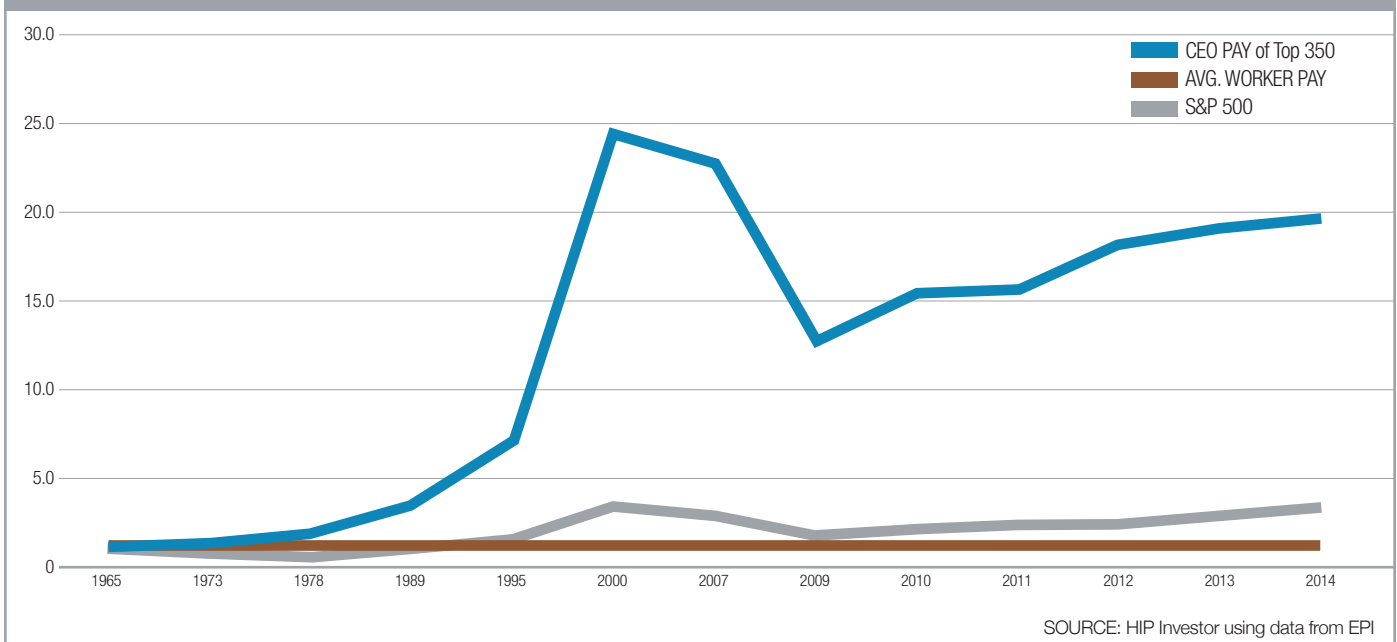
Mutual funds are far more likely to rubber stamp than pension funds, but among mutual funds there is wide variation. Of the largest mutual funds, American and Schwab approved 65% of these packages, while Blackrock supported 97% of them. Some funds seem to routinely rubber stamp management pay practices, enabling the worst offenders and failing in their fiduciary duty. TIAA-CREF, the leading retirement provider for teachers and college professors, is more likely to approve high-pay packages than almost any other institution of its size with support level of 97%.

Directors, who should be acting as stewards of shareholder interests, should be held individually accountable for overseeing egregious pay practices. A number of directors serve on two or more overpaid S&P 500 compensation committees. We list the companies that over-paying directors serve on, and identify individuals who serve on two or more 'overpaid' S&P 500 compensation committees.

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 2014, the inflation-adjusted pay of a typical worker grew by about 0.4% a year (a total of 10.9% over 36 years) while the pay of a typical CEO grew almost a hundred-fold. **CEO pay grew an astounding 997% over the past 36 years, greatly outpacing the S&P500, which has grown only 504% in this time period.**³

FIGURE 2 - GROWTH OF CEO PAY COMPARED TO WORKER PAY, STOCK MARKET PERFORMANCE OVER 50 YEARS



HIP Investor provided us with a chart showing a longer time frame: Growth of CEO Pay Compared to Worker Pay, Stock Market Performance Over 50 Years. This longer time frame, as seen in the table below, provides an even more striking contrast; it covers five decades and multiple business cycles, booms, and busts.

In the introduction of his important new book, *Saving Capitalism: For the Many, Not the Few*, Robert Reich notes that, “The meritocratic claim that people are paid what they are worth in the market is a tautology that begs the questions of how the market is organized and whether the organization is morally and economically feasible.”⁴ The organization of the market for CEO pay is particularly warped, with compensation consultants, questionable peer groups, and overpaid directors all playing a role.

In order to hide the true cost of ever-increasing CEO pay from the company, its shareholders, and the economy as a whole, and also 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 between the pay of a CEO and the performance of a company.⁵ Indeed, it has been argued that the structure of many CEO pay packages actually incentivizes bad decisions and bad behavior.

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 raises the cost of capital for US companies and reduces our competitiveness.

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 raises the cost of capital for US companies and reduces our competitiveness. 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.

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 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. Lack of transparency along with multiple layers of agency costs obstructs a free market response and undermines the credibility and efficiency of public companies.

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.

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 100 most overpaid CEOs deserve more scrutiny.

THE 100 MOST OVERPAID CEOS

As You Sow begins with a forthright acknowledgement of our assessment that many S&P 500 CEOs are overpaid in comparison to the pay of CEOs of large complex European, Canadian, Australian, and Japanese companies, and far out of proportion to the value they provide society. Thus our clear focus is on the “most overpaid” executives at companies where we believe pay is too high (i.e., above peers, taking a 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. Indeed, an important new study this year by the Institute for Policy Studies entitled: “Money to Burn: How CEO Pay is Accelerating Climate Change” illustrated how oil companies’ executives receive bonuses based on short-term operation metrics, such as those related to reserves. This metric distorts the impact of industry-wide trends, undermines long-term planning, rewards increased production of carbon intensive products, and exacerbates the risk of stranded assets.

Pay 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, with no clawbacks or long-term consequences or externalized costs. 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, HIP Investor, and The Analyst’s Accounting Observer. As noted in the acknowledgements, several academics and investors were also generous with data and insights.

HIP Investor ran several statistical analyses of the S&P 500 as of June 30, 2015, 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. Companies were then ranked in order of excess of pay over performance.

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 the 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 within this conceptual framework, while 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. In order to highlight the most extremely problematic issues – rather than just giving one red flag to the worst 100 – we awarded an extra point for the 10 worst companies in some categories. This focus on the worst of the worst allowed us to focus more clearly on the most extreme outliers. Other data points were calculated differently, often comparing companies with problematic practices to those with highly paid CEOs. Each item is described more fully in the sections that follow. The total number of red flags then ranked companies, with the top 100 companies having red flags ranging from the high number of 26 to the low number of six. By contrast, there were 180 companies in the S&P 500 that had three or fewer flags.

The two rank orderings – one created with a statistical analysis, and another with broader considerations – were weighted equally in deriving the final ranking. As discussed more fully below, several companies with unequal voting structures hold triennial say-on-pay shareholder votes and therefore did hold a say-on-pay vote during the period covered by this study

In lieu of these, we selected nine additional companies to the vote analysis list (noted in Appendix B) to bring the total vote collection to 100.

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: Discovery Communications' five-year TSR trails that of the S&P 500 and has fallen most significantly over the last two years. Meanwhile, Discovery (owner of Discovery Channel, Animal Planet, and the Oprah Winfrey Network) awarded their CEO an astonishing \$156 million in compensation. If existing pay packages bore a simple linear relationship to performance, we would only predict pay of roughly \$14 million, leading to HIP Investor's calculation of \$142 million in excess pay.

At the same time, Discovery Communications received 26 separate red flags under As You Sow's analysis. In several areas we looked at Discover Communications as an extreme outlier, one of the 10 worst of the S&P 500. The categories where Discovery was among the ten worst – discussed more fully in our methodology section – include executive compensation as a percentage of revenue, outsize pay comparisons to peers, and largest pay equity gap between the CEO and other officers.

Of the 25 most overpaid CEOs 11 companies appeared on last year's list as well, including CBS Corporation; Chipotle Mexican Grill, Inc.; Comcast Corporation; Discovery Communications Inc.; Exxon Mobil Corporation; Honeywell International Inc.; Oracle Corporation; salesforce.com, inc; and Viacom, Inc. **The company that ranked first for poor CEO pay practices last year, Nabors Industries, has seen such a decline in market capitalization that it was removed from the S&P 500.** Of the 100 companies in the full list (see appendix A), there are 66 that are repeats from last year.

FIGURE 3 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	Discovery Communications Inc.	David Zaslav	\$156,077,912
2	Oracle Corporation	Safra A Catz/Mark Hurd	\$75,335,428
3	CBS Corporation	Leslie Moonves	\$57,175,645
4	Chipotle Mexican Grill, Inc.	Steve Eells & Monty Moran	\$57,077,473
5	Microsoft Corporation	Satya Nadella	\$84,308,755
6	Vertex Pharmaceuticals Incorporated	Jeffrey Leiden	\$36,635,468
7	Yahoo! Inc.	Marissa Mayer	\$42,083,508
8	Exxon Mobil Corporation	Rex Tillerson	\$33,096,312
9	QUALCOMM, Inc.	Steven Mollenkopf	\$60,740,592
10	General Electric Company	Jeffrey Immelt	\$37,250,774
11	salesforce.com, inc.	Marc Benioff	\$39,907,534
12	Honeywell International Inc.	David Cote	\$29,142,121
13	The Walt Disney Company	Robert Iger	\$46,497,018
14	Bristol-Myers Squibb Company	Lamberto Andreotti	\$27,062,382
15	Viacom, Inc.	Philippe Dauman	\$44,334,858
16	JPMorgan Chase & Co.	James Dimon	\$27,701,709
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18	The Coca-Cola Company	Muhtar Kent	\$25,224,422
19	Regeneron Pharmaceuticals Inc.	Leonard Schleifer	\$41,965,424
20	CVS Health Corporation	Larry Merlo	\$32,350,733
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24	Comcast Corporation	Brian Roberts	\$32,961,056
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See Appendix A for full data table of the 100 most overpaid CEOs.

SAY-ON-PAY

The data in this report suggests that say-on-pay may be having a real effect. As noted earlier, we've observed highest pay at companies that are insulated in some manner from annual shareholder votes. The fact that companies appear to be awarding mega-grants on years when their shareholders don't vote suggests that they may fear shareholder backlash.

Also, as can be seen below, pension funds are starting to pay attention to this issue by revisiting their guidelines and/or reconsidering their voting practices. Since 2011, under provision 951 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).⁶ This provision grew out of decades of shareholder activism at hundreds of companies demanding disclosure on CEO pay. 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, as well as others still in process.

The average level of support for say-on-pay proposals at S&P 500 companies in 2015 was 91.86% according to Fund Votes, nearly the same as it had been in 2014. The relatively high level of support received on compensation matters is occasionally cited by compensation consultants to rationalize existing pay levels and structures. However, this reflects the fact that votes cast are generally insulated from the opinion of actual investors.

Even in technical defeat, say-on-pay can be remediating. The real test of say-on-pay is reform, not simply a majority vote; not simply a punishment of those that violate corporate governance standards but an encouragement toward best practices. 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 of 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 of a change is that the tax gross-up, once common policy, 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. However, this year has demonstrated how short-term those reforms can be; several companies, including Kraft, which had eliminated gross-ups at the behest of shareholders, later quietly reinstated them to the advantage of executives.

While some such practices have been reduced, the fundamental issues remain the same and the level of support is generally above 90% (77% of S&P 500 companies received support of at least 90% in the 2015 proxy season).

A number of funds have defended their lack of voting opposition to a philosophical preference for engagement, believing that the most effective way to effect corporate governance is through dialogue. We do not believe engagement or vote opposition is an 'either/or' proposition. If large funds with access can have conversations that result in substantive changes, that is a positive step. However, those conversations tend to be kept private. As noted above with gross-up, many agreed to changes that can be easily reversed. When a company makes a positive reform it is loudly trumpeted, yet when that reform is reversed it is a footnote in an obscure filing.

There is no way to verify whether these negotiations are having a meaningful effect on pay, and in fact the trends over time suggest they are not.

At the same time, we believe these investors should cast a vote against the plan if they have concerns. The votes are the only way mutual fund clients and pension fund participants can evaluate fund stance on pay. These votes are non-binding, but serve as an important marker for all parties. Compensation consultants have used high average votes as an indication that shareholders are happy with executive compensation as it currently stands.

Regulatory changes are also in process, with items related to compensation provided in Dodd Frank moving through the glacial rule-making process at the SEC. One component long in process was finalized, and rulemaking has begun on two others. On August 5, SEC commissioners finally approved implementation of the pay ratio rule. Beginning in 2018, shareholders will see a ratio between the pay of CEO and median employee in proxy statements. As Larry Mishel of EPI noted, “The delay shows the power of corporate lobbyists, but the finalizing of the rule is a win for the American people.”⁸

In July, the SEC released a 198-page draft proposal proposing specifics on a clawback rule that will require companies to recoup incentive-based compensation following a material restatement, but implementation will not be finalized for some time and there are considerable loopholes. Earlier in the summer, the SEC proposed a rule requiring a new data table to be included in proxy statements that illustrates how closely pay aligns with three and five-year TSR.

MUTUAL FUND VOTES

Mutual funds hold 25% of U.S. equities. Yet, time and time again, the largest seem to rubber stamp managements’ recommendations. As detailed below, mutual funds – some more than others – tend to support compensation packages routinely and oppose them less often.

This happens in part because of the complicated nexus of self-interest of mutual funds that manage billions in corporate pension and other retirement 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.⁹ In many cases it appears funds do not conduct adequate review of this important duty.

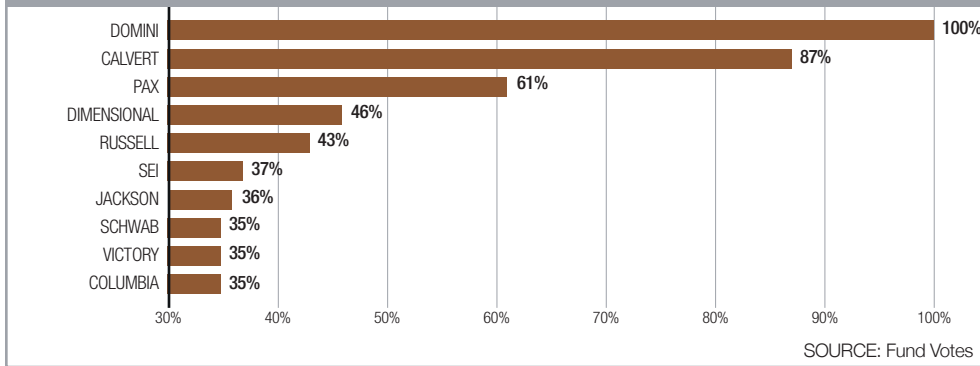
Yet, even in cases where there is a great deal of agreement on the state of the problem, some mutual funds continue to vote in favor of the proposals.

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.¹¹ The Fund Votes database covers proxy votes reported in N-PX filings by approximately 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 N-PX, are complex and Cook’s proprietary tools for analyzing and representing the large volumes of data make her the lead tracker of institutional proxy voting.

“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*¹⁰

FIGURE 4 - MUTUAL FUND FAMILIES WITH HIGHEST OPPOSITION TO OVERPAID CEO PAY PACKAGES



* 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.

Ranked from those with who oppose the highest number of overpaid CEO pay packages, these mutual fund families have shown that they were more likely to vote against excessive pay of CEOs.

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.

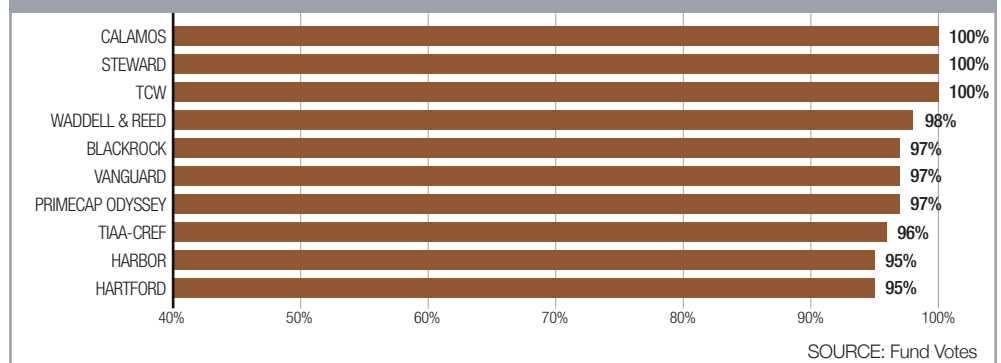
Opposition to say-on-pay resolutions at the fund family level is calculated as the percent of votes cast ‘against’, using the sum of votes ‘for’, ‘against’, and ‘abstain’ as the denominator.

Of the 100 companies in our initial analysis, nine did not hold say-on-pay votes between July 1, 2014 and June 30, 2015, in many cases because they are the unusual companies that hold executive compensation votes every three years. In other cases it was an issue of timing: Time Warner Cable, with a July 1, 2015 meeting, did not hold an annual meeting during this time. 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. We therefore did not include those overpaid companies when doing the analysis of fund voting and instead added an equal number of companies to the list, with particular attention to those that received low shareholder votes and which multiple advisory firms recommended against. Our methodology highlights companies with the highest CEO pay, but CEOs may be overpaid with pay below the S&P 500 median, or have particularly problematic practices that inspire shareholders to vote against a package. By adding some companies such as these to our list when collecting pay votes, we call attention to issues besides that of the sheer quantum of pay.

Fund Votes identified 44,494 votes cast by 2,355 funds belonging to 112 mutual fund groups on the 100 say-on-pay resolutions that came to vote at the annual general meeting (AGM) of the 100 companies surveyed for this report.

For the second year in a row TCW, Steward, and Calamos voted in favor of pay packages at all the companies we reviewed, suggesting a high probability that they routinely vote in favor of all such packages. Such an apparently automatic approval reveals a singular lack of attention to an important fiduciary duty. Berkshire Hathaway also supported every one of the proposals, but only holds seven of the companies in their portfolio.

FIGURE 5 - PERCENT OF TIME RUBBER-STAMPING MUTUAL FUNDS APPROVE OVERPAID CEO PACKAGES

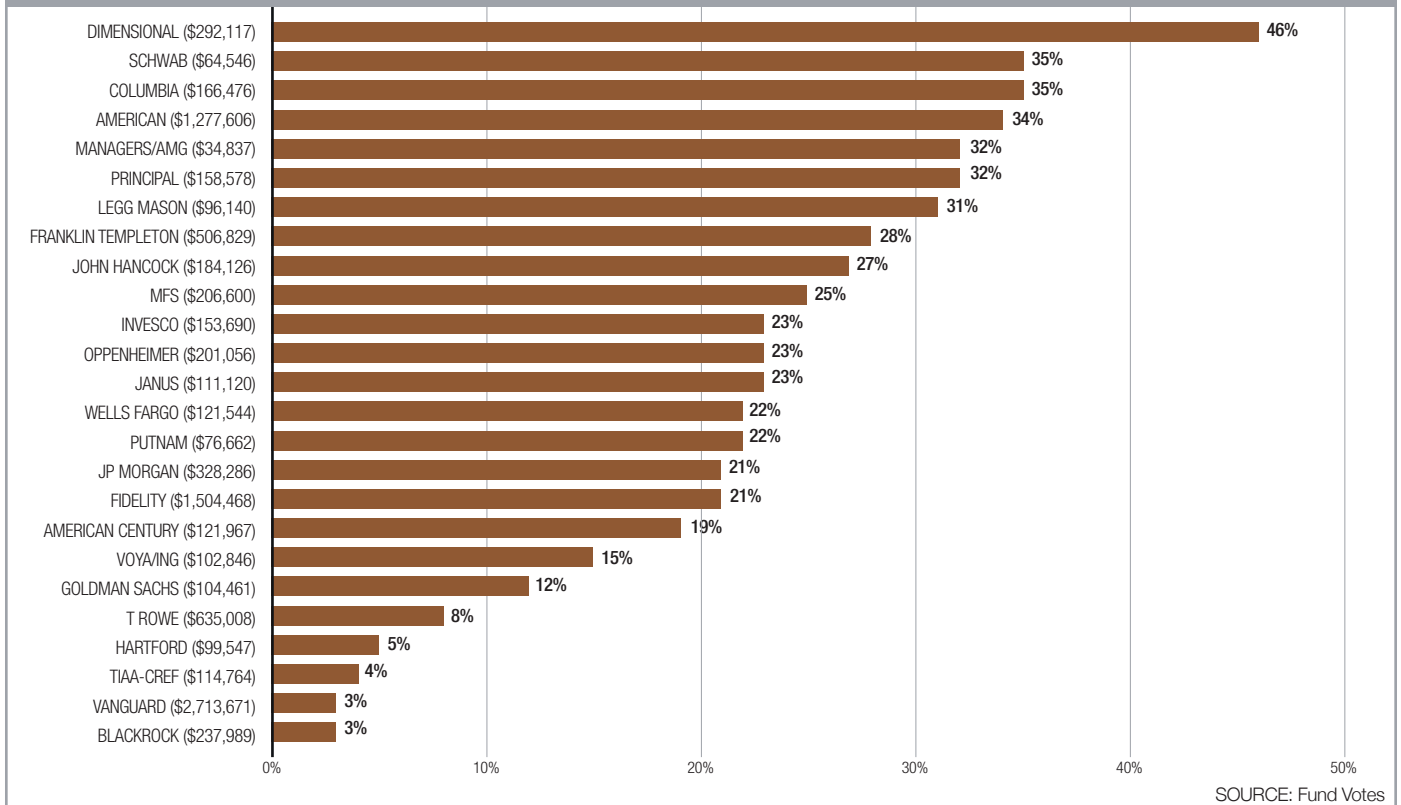


* Funds that had less than 25 votes at the representative companies were excluded from this list.

Each year’s N-PX filing is due August 31 and covers the most recent 12-month period ending 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 resolution on the same ballot by different funds within a fund family. These cases may reflect different ways in which proxy votes are managed within fund families. Some fund complexes coordinate votes centrally while others might delegate proxy voting to individual fund managers.

In order not to overweigh votes on securities held more widely

FIGURE 6 – OPPOSITION TO OVERPAID CEO PAY PACKAGES AT LARGE MUTUAL FUND FAMILIES



* Fund AUM (US\$ millions) from Morningstar data as of November 2015

These funds are ranked by size based on Assets Under Management.

While the average level of support across 25 large fund groups remained the same as last year – 78% – in general it appears that some of the large mutual funds are voting more carefully. In our report last year, there were only four large fund groups that supported less than 70% of the overpaid packages; this year it was seven. The largest fund is Vanguard, with \$2.7 trillion in assets under management as of November 15, 2015. The smallest of the 25 is AMG Funds (Affiliated Managers Group) with \$34.8 billion.

Figure 7 also shows the changes in voting records. Notably, in 2014, Dimensional supported the pay packages at nearly 80% of the excessively paid companies in its portfolio, but with a more rigorous evaluation in 2015 it supported only 54% of the current list. While Dimensional is one of the largest mutual fund families it is not as well-known. Dimensional has a special working relationship with leading financial academics, including Nobel Prize winner Eugene Fama who is their principal scholar and a board director.

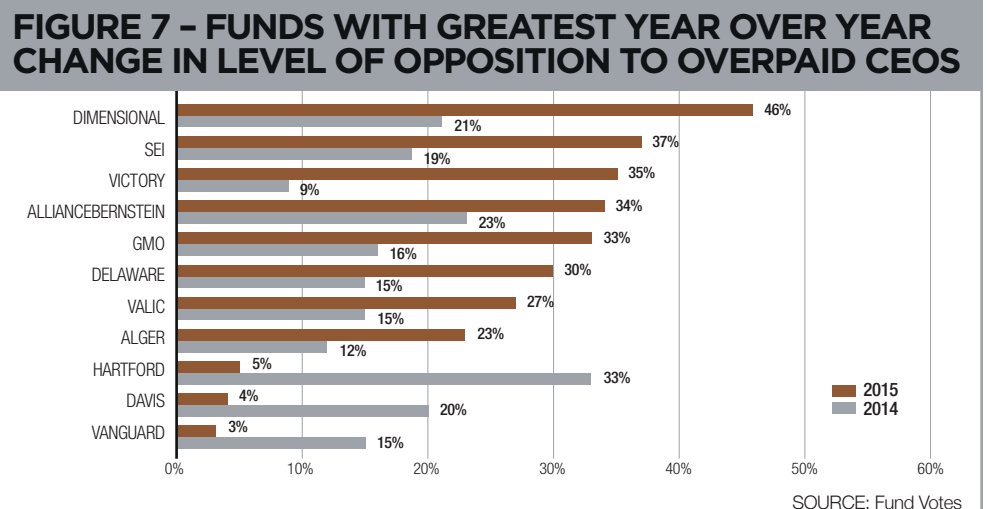
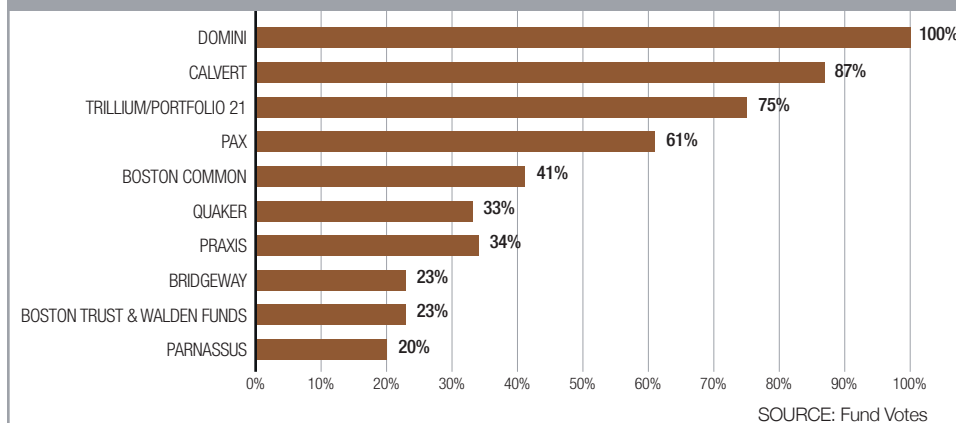


FIGURE 8 – OPPOSITION TO OVERPAID CEO PAY PACKAGES AT SRI FUNDS



Eleven SRI mutual funds were surveyed. Of these, one mutual fund, Green Century, failed to cast a vote either for or against any of the 40 say-on-pay resolutions that they voted on – instead abstaining on all. They are therefore not depicted in Figure 8 since their level of opposition does not reflect a corresponding level of support. Of the 10 SRI mutual funds depicted in Figure 8, four voted against more than 50% of the time and on average they opposed say-on-pay resolutions 50% of the time. While they are more likely to vote against

excessive pay packages than non-SRI mutual fund groups, there is a significant range in voting patterns – with Domini opposing all 27 resolutions that it voted on and Calvert opposing 87% of the 99 resolutions that they voted on. Parnassus, on the other hand, opposed only three of the 25 resolutions that they voted on.

PUBLIC PENSION FUNDS

While mutual funds are required to publicly disclose votes, there is not a similar requirement at this time for public pension funds. In the spirit of good governance and transparency, a number of pension funds do provide beneficiaries and the public with the opportunity to review their shareholder proxy votes. As the Canadian Pension Plan Investment Board states on its website, “One of the most effective mechanisms we have to engage with public companies is voting our proxies. As an engaged owner, we are transparent in our voting activities and implement the leading practice of posting our individual proxy vote decisions in advance of meetings.”

Last year we reported on votes cast by nine large North American public pension funds. This year we sought to expand our disclosure and reached out to over 75 public pension funds, and have expanded our disclosure to include results from 32 funds. In addition, we have made an effort to garner information on the voting practices of endowments, foundations, and public pension funds.

We are now aware of 15 public pension funds that disclose their votes online. Funds often use infrastructure provided by their voting service, and even if not disclosed that information can be found when looking at the IP address. For example, the web addresses of [CalPERS](#), [CALSTRS](#), [Colorado PERA](#), and [Pennsylvania Public School Retirement](#) includes the words Glass Lewis. The [Employees Retirement System of Texas](#) address begins with the letters ISS.

The [State of Connecticut](#) posts its votes quarterly, and the [State of Washington](#) posts them annually.

This year we also sought data at funds using various specific open record requests, similar to those authorized on a federal level under the Freedom of Information Act (often referred to by the acronym, FOIA). As You Sow submitted dozens of requests, and found the challenges, costs of filing the requests, and the responsiveness to the requests to vary considerably. Some funds responded within a day of receiving the request, and others issued multiple 90-day delays.

Public pension fund disclosure is growing. In December, CalPERS announced that it was expanding its online coverage of proxy voting decisions to include all votes for the 10,000 plus publicly held companies in its portfolio. Prior to this expansion, CalPERS provided proxy voting information for the 300 largest public company holdings in its portfolio.

“Openness is one of CalPERS’ Core Values,” said Ted Eliopoulos, CalPERS Chief Investment Officer. “As a long-term shareowner, our votes are one way we can influence a company’s operations and governance. We want all shareowners to have access to this information.”¹²

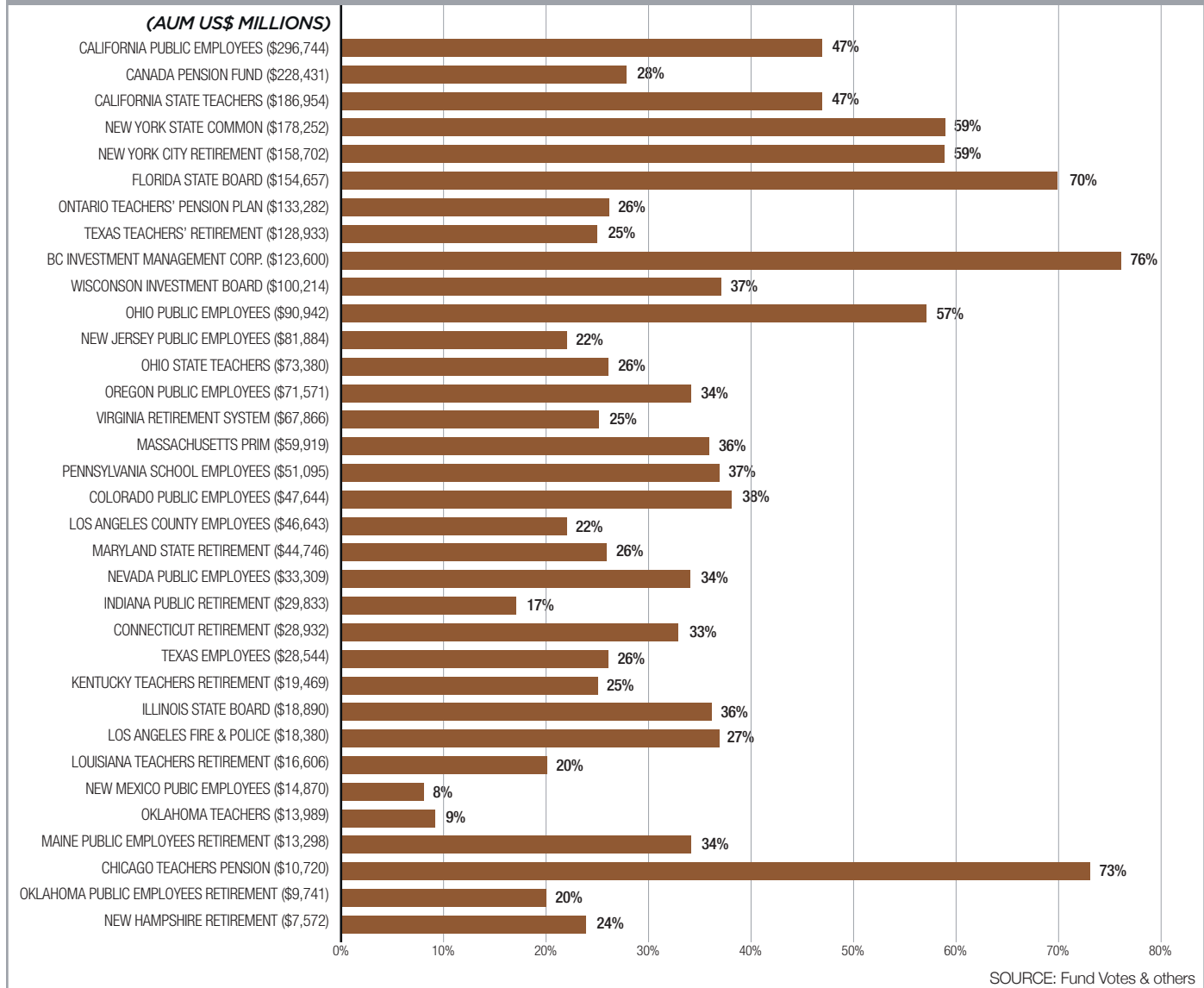
In South Carolina, the S.C. Retirement System Investment Commission (RSIC) has completed a fiduciary audit that looked at proxy voting among other issues. The RSIC is finalizing proxy voting rules currently in development, and according to CEO Michael Hitchcock, the initiative will “require investment managers to vote in the best interests of plan participants, and monitor how managers are voting proxies using RSIC’s document management system.” It is anticipated that the project will be finalized by March 31, 2016.

In addition, more public funds – perhaps in part dissatisfied with the high approval ratings on compensation of companies managing their funds – are centralizing their voting of assets, and playing a more direct role.

In Rhode Island, State Treasurer Seth Magaziner, who took office in 2015, intends to bring more proxy voting under the state’s auspices. The State Investment Commission voted in July to move one quarter of equity holdings (with an approximate value of \$1 billion) to the separately managed account. Previously, State Street voted the proxies.

Washington State Governor Jay Inslee raised the issue of votes on executive compensation as part of his State of the State address, delivered on January 12, 2016. Inslee notes that the Washington State Investment board is a shareholder in many companies, and currently “votes against executive compensation packages if they do not align with the company’s financial performance.” Inslee notes, “I’ve asked the investment board to go further and exercise its voting authority to reduce the widening pay gap between CEOs and their workers. I’m encouraging the board to promote this policy with other states and institutional investors.”¹³

FIGURE 9 – OPPOSITION TO OVERPAID CEO PAY PACKAGES AT PUBLIC PENSION FUNDS



There are some pension funds that appear to leave voting entirely up to the individual managers of the various portions of their assets. Seven institutions (pension funds and endowments) submitted non-collated vote records – comprising multiple documents submitted by separate fund managers. At least four of these institutions’ votes were cast at odds with each other on the same resolution by their fund managers.

Oklahoma Teachers Retirement System submitted 16 separate proxy voting reports collected from its various managers. New Mexico Public Employees Retirement Association submitted 25 records from separate managers, and University of Texas Investment Management Company submitted 31 separate voting records. In each case, the records were formatted in a variety of disclosure formats and document types. Most records were submitted in PDF format, some as restricted documents, or with formatting that makes the automated extraction of votes very difficult.

Given the difficulties of making sense of these disparate records, it is hard to imagine that the investment committees governing these assets have a clear understanding of how their assets are being voted and the impact of these votes on levels of pay disparity that affect so many beneficiaries of public funds.

As can be seen in Figure 9, the votes this year showed a stronger level of opposition to the pay packages than those in last year’s report.¹⁴ The median level of support fell from approximately 78% to approximately 67%. Last year the highest level of support by a pension fund came from Ontario Teachers’ Pension Plan; Teacher Retirement System of Texas (TRS) and Canadian Pension Plan Investment Board (CPPIB) with support levels of 89%, 85%, and 83% respectively. This year the same pension funds approved 74%, 75%, and 72% respectively. The pension funds that approved the most overpaid CEO pay packages were new to our list this year.

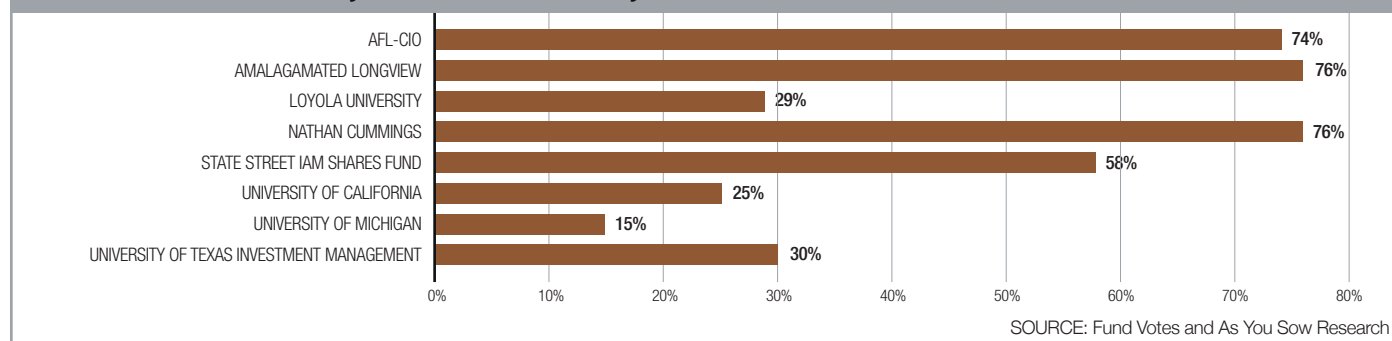
One of the funds with the greatest change was CalPERS, which last year opposed just 30% of the overpaid CEO pay packages, and this year increased that opposition level to 47% of the overpaid CEO pay packages. CalPERS, with \$300 billion assets under management as of December 31, 2014, is the second largest pension fund. See appendix C for more data on AUM of pension funds.

The British Columbia Investment Management Corporation (bcIMC), which manages well over \$120 billion of pension funds, had the highest level of opposition (76%) to overpaid CEO pay packages of any pension fund we surveyed.

LABOR FUNDS, ENDOWMENTS, & FOUNDATIONS

Last year labor funds were included in the list of pension funds, but this year we pulled them out in a separate chart. Included with the traditional labor funds are two hybrids. State Street IAM Shares Fund is a separate fund created with the International Association of Machinists. Founded in 1992, Amalgamated Bank’s LongView Funds serve union pension funds and other funds and seek to promote long-term shareholder value by pressing portfolio companies to adopt best practices with respect to corporate governance, executive compensation, and similar issues.

FIGURE 10 – OPPOSITION TO OVERPAID CEO PAY PACKAGES BY LABOR FUNDS, FOUNDATIONS, AND ENDOWMENTS



University endowments represent significant assets, but determining how those assets are voted is a difficult challenge. As You Sow reached out to 19 endowments, and in the vast majority of cases have not received a response. So far, we have only been able to access proxy voting records for two university endowment funds: University of Texas System (through a FOIA) and Loyola University (Chicago) which uses an ISS policy and makes their votes available online. The University of California responded to a FOIA with information on University of California system funds managed by the Regents of the University. It should be noted that a number of campuses, notably Berkeley, manage their own endowment funds, which thus have a different voting record.

We selected endowments based on fund size as identified by [US News & World Report](#)¹⁵ as well as prominence. Using the websites of the universities, we identified contact information for the Chief Investment Officer or equivalents of each institution. In some cases we directly contacted the offices that manage the endowments of the institutions to inquire about proxy voting records. In many cases it appears that external investment managers vote the proxies for endowments they manage, and in those cases we contacted the external offices.

Mark Orlowski, Executive Director of the Sustainable Endowment Institute, advised us in an email that “incredibly few universities and foundations disclose proxy voting records and the vast majority of them won’t provide the voting records even upon request...I’m not aware of any organization or entity that is involved with increasing the transparency or availability of institutional investor proxy voting records. I wish I could offer better news but I unfortunately don’t think you’ll be able to gather a significant enough sample to be able to report anything but anecdotal voting results from a handful of foundations and universities.”¹⁶ Based on our initial research efforts, this assessment appears to be accurate.

Our attempts at garnering foundation voting results were similarly unsuccessful. It appears that for the most part foundations delegate proxy voting to investment managers. Some foundations maintain committees with authority to vote on particular issues, but these appear to be only exceptional cases. The Packard Foundation, for example, notes that the committee will “be called into service if and only if an issue arises and is brought before the Committee by a member of the Board of Trustees that warrants direct action by the Foundation.”¹⁷

While disclosure of specific votes is absent, funds do appear to be increasingly aware of the importance of voting proxies more generally, but often around core missions and not as related to executive compensation. The Hewlett Foundation notes that, “The Foundation favors proxy voting aligned with its core mission. This strategy appears to have an increasing influence on management decisions, is unlikely to degrade investment returns, and can be accomplished with minimal administrative burden.” But states that given its “programmatic concerns and expertise and our investment processes, we believe we can be most effective in voting proxies that implicate climate change or forestry practices.”¹⁸

The Nathan Cummings Foundation was one foundation we identified that offers voting disclosure on its website, though disclosure is related to shareholder proposals. The Foundation shared with us their votes on the selected companies so they could be included in this report. The Jesse Smith Noyes foundation includes information on its proxy voting generally (though at publication it was 2014 data), but references only board and shareholder proposals and not compensation related proposals.

PROXY ADVISORY FIRM RECOMMENDATIONS

ISS recommended shareholders vote against say-on-pay packages at 20 of these companies. However, an additional 13 companies on the list were among those receiving a QuickScore (a single score that measures a company’s level of overall corporate governance risk in compensation) in the lowest 20% percentile. ISS also offers specific client services. The Taft-Hartley policy, used primarily by labor affiliated funds, recommended voting against pay at 39 of the companies on the list, while the SRI policy recommended against 30. Glass Lewis recommended against 32, including 21 where it gave D or F grades under their pay-for-performance grading system. There were an additional 26 companies on the list that received D or F grades from Glass Lewis, but where the advisory firm recommended votes in favor of the pay packages.

Marco Consulting, which provide proxy voting services to Taft Hartley and Public Funds, recommended shareholders vote against packages at 74 of the companies we identified as most overpaid. Proxy Impact, a company that provides proxy voting and shareholder engagement services for socially responsible investors, voted against 86% of the packages.¹⁹ The highest level of alignment came from the Pensions & Investment Research Consultants Ltd. (PIRC), based in the United Kingdom, which recommended against 94 of the pay packages we highlighted.

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. As noted by Reich, "CEOs play large roles in appointing their corporations' directors, for whom a reliable tendency toward agreeing with the CEO has become a prerequisite. Directors are amply paid for the three or four times a year they meet, and naturally want to remain in the good graces of their top executives."²⁰

Or, as Lucien Bebchuk and Jesse Fried write in *Pay Without Performance*, "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 add, "Executives' influence over directors has enabled them to obtain 'rents' — benefits greater than those obtainable under true arm's-length bargaining."²¹ In other words, shareholders are paying more than they would need to, due to the CEOs' relationships with board members.

Pay 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.

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 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 more so a broader connection of shared interests.

"You have to pay them, obviously, for their effort, time, and potential liability," said Elson, the University of Delaware professor, in *The Boston Globe*.

"But when you start looking at director compensation that looks like managerial compensation, that's where you run into problems."

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. We identified multiple directors who served on the compensation committee of more than one company that overpaid its CEOs. Gordon Bethune serves on the board of Honeywell International and Prudential Financial. Maynard Webb serves on the boards of Yahoo! Inc., Salesforce, and Visa (which was not calculated as one of the most overpaid).

Retired Johnson & Johnson CEO William Weldon serves on the boards of CVS, Exxon Mobil, and JP Morgan — all three companies ranked in this study. Retired Exxon CEO Ray Irani serves on the compensation committee of Wynn Resorts. It may be that such CEOs who were extraordinarily well-paid for their tenure are even less inclined to constrain current pay, even if best practices have changed.

On the list we analyzed of compensation committee members at overpaying companies, there were several individuals who are or were themselves CEOs. As Reich points out, "CEOs...have considerable interest in ensuring their compatriots are paid generously."²²

There are 21 directors who serve on two or more of the boards we highlight for overpay. Three directors serve on three such boards. Visit Appendix E to see the full list of 21 individuals who serve on the compensation committee of two or more companies with overpaid CEOs.

The pay directors receive may also be a factor in how vigilantly they oversee executive compensation, particularly in the case of individuals who rely on their board pay as a primary source of income. It is reasonable to speculate whether such fees are sufficient to make directors more acquiescent and less willing to rock the boat. An analysis by *The Boston Globe* found that pay for directors "has nearly doubled at the 200 largest US public companies since 2000 to a median of \$258,000 last year."²³ That

article cited *Journal of Corporate Finance* study from 2006 study that “found a strong correlation between excessive pay for directors and chief executives.”

Those directors who rely on their directorships as a primary source of income would be particularly vulnerable to subtle pressures. It is difficult to tell from the brief biographies of directors that appear in proxy statements who make being a director a profession, though they may offer hints.

One company that received particular attention from *The Boston Globe* was Vertex Pharmaceuticals, a company on our overpaid list. According to *The Boston Globe* study, “Financial filings show Vertex directors awarded themselves a median of \$788,000 in total compensation last year, double the median for companies Vertex identified as its peers.” Is it surprising that such overpaid directors acquiesce to overpaying the CEO?

Another issue explored in *The Boston Globe* series, was how serving on multiple boards related to the quality of director oversight. As the article noted, shareholders have raised concerns that over-committed individuals cannot adequately focus on the important work directors are charged to accomplish. While both Glass Lewis and ISS (the two largest proxy advisory firms), changed their standard from defining over-committed directors from six to five, a survey of ISS shareholders showed a preference for an even lower number.²⁴ One reason individuals may be tempted to overextend themselves is the board compensation.

“You have to pay them, obviously, for their effort, time, and potential liability,” said Elson, the University of Delaware professor, in *The Boston Globe*. “But when you start looking at director compensation that looks like managerial compensation, that’s where you run into problems.”

FIGURE 11 – COMPENSATION COMMITTEE DIRECTORS AT THE TOP 10 MOST OVERPAID

RANK	COMPANY	COMPENSATION COMMITTEE MEMBER	PRIMARY EMPLOYMENT	OTHER PUBLIC COMPANY BOARDS
1	Discovery Communications Inc	Gould, Paul	Managing Director, Executive VP Allen & Company (investment banker)	Ampco-Pittsburgh Corporation and Liberty Global
		Miron, Robert J. – (Chair)	Chairman, Discovery	
		Beck, Robert R.		
2	Oracle Corporation	Chizen, Bruce R. – Chair	Senior Adviser to Permira Advisers LLP; Venture Partner, Voyager Capital	Synopsys
		Conrades, George H.	Akamai Technologies (Chair)	Harley-Davidson, Ironwood Pharmaceuticals
		Seligman, Naomi O.	senior partner at Ostriker von Simson, a technology research firm	Akamai Technologies, iGate Corp
3	CBS Corporation	Gordon, Bruce S.		Northrop Grunman, ADT
		Gifford, Charles K. – Chair		Chairman Emeritus Bank of America, Eversource Energy
		Morris, Doug	CEO, Sony Music	
4	Chipotle Mexican Grill, Inc.	Cohen, William S.	Chairman, CEO, Cohen Group	
		Friedman, Darlene, J. – Chair		
5	Microsoft Corporation	Flynn, Patrick		
		Dublon, Dina*	Former CFO & EVP, JPMorgan Chase	Pepsico, Accenture PLC, supervisory board Deutsche Bank
		Stanton, John	Chairman, Trilogy International Partners	Columbia Sportswear
		Panke, Helmut	Former Chairman of the Board of Management, BMW Bayerische Motoren Werke AG	USB AG, Singapore Airlines Limited, Bayer AG (supervisory Board)
6	Vertex Pharmaceuticals Incorporated	Klawe, Maria M.	President, Harvey Mudd College	Broadcom
		Kearney, Terrence	Former executive, Hospira	Accelaron Pharma, Theravance
		Sachs, Bruce	Charles River Ventures, a venture capital firm	
		Ullian, Elaine	Former CEO Boston Medical Center	Thermo Fisher Scientific, Hologic
7	Yahoo! Inc.	Young, William	Venture Partner at Clarus Venture	Chairman of NanoString Technologies, Theravance BioPharma, BioMarin Pharmaceutical
		Shaw, Jane E. – Chair		
		Webb, Maynard	Webb Investment Network	salesforce, Visa
8	Exxon Mobil Corporation	Fishman, Jay. S.	Chairman, CEO, Travelers Group	Travelers Group, The Carlyle Group
		Palmisano, Samuel, J. – Chair	Former Chair/CEO IBM	American Express
		Weldon, William C.	Former Chair/CEO Johnson & Johnson	JPMorgan Chase & Co., Chubb, CVS Caremark
		Boskin, Michael J.	President & CEO Boskin & Co.	Oracle
9	QUALCOMM, Inc.	Alexander, Barbara T.	Consultant	Allied World Assurance Company Holdings, Ltd., Choice Hotels
		Rubinstein, Jonathan		Amazon
		Stern, Marc I.	Chairman, TCW	
10	General Electric Company	Jung, Andrea	President, CEO and director, Grameen America	Apple, Daimler
		Warner, Douglas, A. III	Former Chair JPMorgan Chase	
		Cash, James I, Jr.	Professor Emeritus, Harvard Business School	Chubb, Wal-Mart
		Brennan, John J.	Chairman emeritus and senior advisor of Vanguard Group	LPL Financial Holdings
		Dekkers, Marijn E.	Chairman, Bayer	Bayer
		Lane, Robert W.	Former Chair/CEO Deere	Verizon Communications, Northern Trust, BMW

* has since left committee

Since, as Reich notes, “being a board director is the best part-time job in America,” directors ultimately face few downsides to approving packages, and the potential consequence of being labeled “difficult to work with.”²⁵

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

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, calculating a set of linear regressions between two types of factors: financial performance and executive pay.

FIGURE 12 – TOP 25 MOST OVERPAID BY HIP INVESTOR REGRESSION ANALYSIS

RANK	COMPANY	CEO NAME(S)	CEO PAY VALUE	EXCESS RELATIVE TO REGRESSION
1	DISCOVERY COMMS. 'A'	David M. Zaslav	\$156,077,912	\$142,258,415
2	MICROSOFT		\$84,308,755	\$71,837,305
3	ORACLE	Safra A. Catz and Mark V. Hurd	\$75,335,428	\$62,878,735
4	QUALCOMM	Steven M. Mollenkopf	\$60,740,592	\$48,379,119
5	CHIPOTLE MEXICAN GRILL	Steve Ells and Monty Moran	\$57,077,473	\$40,786,070
6	CBS 'B'	Leslie Moonves	\$57,175,645	\$40,048,682
7	WALT DISNEY	Robert A. Iger	\$46,497,018	\$32,178,753
8	VIACOM 'B'	Philippe P. Dauman	\$44,334,858	\$29,868,252
9	YAHOO	Marissa A. Mayer	\$42,083,508	\$29,310,423
10	PRUDENTIAL FINANCIAL	John R. Strangfeld	\$37,483,092	\$24,189,915
11	GENERAL ELECTRIC	Jeffrey R. Immelt	\$37,250,774	\$24,064,362
12	VERTEX PHARMACEUTICALS	Jeffrey M. Leiden	\$36,635,468	\$23,438,711
13	REGENERON PHARMACEUTICALS	Leonard S. Schleifer	\$41,965,424	\$22,973,967
14	EXXON MOBIL	Rex W. Tillerson	\$33,096,312	\$21,118,524
15	LOCKHEED MARTIN	Marilyn A. Hewson	\$33,687,442	\$20,703,635
16	ACTAVIS	Brenton L. Saunders	\$36,613,829	\$20,689,611
17	TIME WARNER CABLE	Robert D. Marcus	\$34,615,597	\$19,424,582
18	CVS HEALTH	Larry J. Merlo	\$32,350,733	\$19,261,594
19	TIME WARNER	Jeffrey L. Bewkes	\$32,903,139	\$18,890,365
20	COMCAST 'A'	Brian L. Roberts	\$32,961,056	\$18,516,049
21	TARGET	Brian C. Cornell	\$28,164,024	\$16,194,690
22	SALESFORCE.COM	Marc Benioff – (Chief Executive Officer and Chairman of the Board)	\$31,333,332	\$15,679,287
23	JP MORGAN CHASE & CO.	James Dimon	\$27,701,709	\$15,403,974
24	HONEYWELL INTL.	David M. Cote	\$29,142,121	\$15,272,245
25	BOEING	W. James McNerney, Jr.	\$28,861,920	\$14,970,976

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

SOURCE: HIP Investor

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.

In an effort to establish a comprehensive analysis that focused on most variables, those in the lowest fifth of the S&P 500 in most categories 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. In addition, to give more weight to the worst outliers, in some categories the 10 most extreme companies received two points (or red flags). 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 selected for this study qualified on the basis of an accumulation of issues. The companies that appear on the top 100 list each have at least six red flags, up from five last year. In contrast, there were 180 companies in the S&P 500 that had three or fewer flags.

1. 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.

2. 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.

3. 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. Allocations of resources toward the pay of the top executives is also problematic.

4. Third-party compensation ratings

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 points included in the tally were low votes on 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.

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.²⁶

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.”²⁷

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.)²⁸

FIGURE 13 – OVERPAID BY PAY AND PERFORMANCE INDICATORS

COMPANY	HIGHEST NEIC LOWEST TSR	LOW AVERAGE ROA AND INCREASE IN PAY OF	3/5 YEAR LOW ROIC & A HIGH PAY MEASUREMENT OR HIGH INCREASE	CIP SCORE FROM EVA	EVA MOMENTUM & HIGH PAY	HIGHEST INCENTIVE IN 4 OUT OF 5 YEARS	BUYBACKS OVER INCOME; BONUS ABOVE MEDIAN	LARGEST DIFFERENCE BETWEEN NET INCOME AND NON-GAAP AN HIGHEST PAY	EQUITY AWARDS OVER \$10M	OPTIONS OVER \$3 MILL 6 OF 9 YEARS, INCLUDING LAST 3	DATA STANDARD OPTION AS PERCENT OF VALUE, OVER 60	TOTAL
International Business Machines Corp.	🚩			🚩	🚩	🚩	🚩		🚩			6
Alcoa Inc.		🚩	🚩	🚩	🚩			🚩				5
AT&T Inc.						🚩	🚩	🚩	🚩			4
Celgene Corporation						🚩		🚩		🚩	🚩	4
Ford Motor Company	🚩				🚩					🚩	🚩	4
McKesson Corporation				🚩		🚩		🚩		🚩		4
QUALCOMM, Inc.					🚩	🚩			🚩	🚩		4
salesforce.com, inc.		🚩	🚩						🚩		🚩	4
Vertex Pharmaceuticals Incorporated		🚩	🚩						🚩	🚩		4

One reason has been a 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).²⁹ 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.³⁰ 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 and performance comparisons below spotlight the lack of connection between corporate performance (separate from larger trends) and CEO pay, and illustrate high-pay in multiple contexts.

Lowest five-year TSR and highest total cash incentives

Total Shareholder Return (TSR) 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. Thirteen companies received such red flags.

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.”³¹ In this calculation we gave red flags to companies that had among the lowest average return on assets and showed a pay increase of 20% or higher.

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 either met a high-pay measurement or had a pay increase of over 100% or more received a red flag. There were a total of 23 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 have 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 10 with five-year ROIC decline and significant reported compensation increases over these two points in time. (Companies with a change in CEO over this time period were not included in this data point.)

Economic Value Added (EVA)

Consulting firm EVA Dimensions furnished us a ranking of the S&P 500 companies through its Corporate Performance Index (CPI). EVA Dimensions has been a leader in highlighting flaws with performance measurements based solely on TSR, and promotes greater emphasis on EVA (operating profit less an interest charge on capital).

The CPI provides a score of composite measure of financial excellence that considers the firm's growth record in EVA profits, its franchise value, current profitability, and the market-implied forecast for growth in EVA. We compared the 100 S&P 500 companies with the lowest CPI score to our lists of the companies with the highest five-year total cash incentives for the CEO.

EVA Dimensions also provided us with grades on a variety of components that contribute to the overall score. We looked at companies that received D's or E's in market-implied EVA growth. Among those 122 companies, 40 were on our high-pay list for 2014 as well. Those companies received a red flag for that.

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 any 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. However, to repeatedly be on such a list raises concerns. 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 68 companies in the S&P 500 that received a flag for this feature.

High stock buybacks

Executives have the potential to influence stock metric results in a non-sustainable way, which is also of paramount concern to shareholders. Critics have recently focused increasingly more on the problems with stock buybacks. According to economist William Lazonick, public companies have spent more and more of their profits on stock buybacks to boost the value of stock, which has been 'diluted' by the heavy use of stock-based compensation.

A recent *Reuters* study, "The Cannibalized Economy" noted that, "the top 50 non-financial U.S. companies in terms of cumulative amounts spent on stock repurchases since 2000 are now often giving more money back to shareholders in buybacks and dividends than they make in profits."³² Such buybacks can increase the executive's personal fortune in several ways. For example, it can decrease the denominator – the number of shares – in the commonly used compensation metric of earnings per share, so may inflate bonuses. Likewise, as *Reuters* notes, "Because buybacks increase demand and reduce supply for a company's shares, they tend to increase the share price, at least in the short-term." This short term may overlap with the time that executives exercise stock options or sell shares.

Using the data in the *Reuters* report, we looked at compensation at the list of companies that spent more on buybacks and dividends during 2014 than they than earned in profits during the same time period. We awarded red flags to the 23 companies that awarded non-equity incentives exceeding the median of their peers.

Variation between GAAP & Non-GAAP figures

There has been an explosion of the use of non-GAAP earnings. (GAAP stands for generally accepted accounting principles,

and are the standard in the industry.) By 2014, there were 334 companies in the S&P 500 who used non-GAAP figures in some element of their reporting. In addition to making cross-company comparison more challenging, the exclusions may allow executives to make targets that would not otherwise have been achieved. A significant concern regarding pay for performance is that it could incentivize financial engineering. Another problem here is that systemic problems can be hidden by a mass of individual “non-recurring” costs or other adjustments. They muddy already confusing financial statements.

In August 2015, accounting research firm R.G. Associates, Inc. published an Analyst’s Accounting Observer report entitled, “Where it Lives in the S&P 500: The Non-GAAP Earnings Epidemic.” Using that report,³³ written by Jack T. Ciesielski, we compared the list of the 100 companies with the highest different between net income vs. non-GAAP earnings. We then compared this to our list of highly-paid CEOs and found overlap at 24 companies. These received red flags.

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 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 the outliers for the most recent fiscal year. There were 49 companies that issued equity grants of over \$10 million in the most recent fiscal year, a threshold that we considered to be extraordinarily large. In this, as in other outlier categories, the 10 companies with the largest grants received two rather than simply one red flag.

As noted by Roger Martin in the *Harvard Business Review* study, “The Rise (and Likely Fall) of the Talent Economy”, Martin states, “Stock-based compensation motivates executives to focus on managing the expectations of market participants, not on enhancing the real performance of the company.”³⁴

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. When stock options are granted judiciously they provide a form of compensation that can align the interests of executives and shareholders. Repeated use of large option grants, particularly when executives cash in those options and sell the shares (sometimes known as “churn”), defeats that purpose.

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.

Overuse of options

Another concern with stock options is that the potential to reap great windfalls with no personal downside may exacerbate conflicts with the interests of long-term shareholders. As Reich notes, “This form of pay gives CEOs a significant incentive to pump up the value of their firms’ shares in the short run, even if the pumping takes a toll over the long-term.”³⁶ One important

study was highlighted by *The New York Times* reporter Gretchen Morgenson in a September 2015 article, “Safety Suffers as Stock Options Propel Executive Pay Packages.” This study, entitled, “Throwing Caution to the Wind: The Effect of C.E.O. Stock Option Pay on the Incidence of Product Safety Problems”, shows increased risk of product recalls at companies that rely heavily on options.³⁷ Using ISS data we gave red flags for those companies in which options were 60% or more of total pay. A total of 43 companies received this flag.

“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 School³⁵

“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 Review³⁸

Compensation Inflatons: Contributors to the Upward Spiral

There are several qualitative factors that play a key role in the increase of compensation, including particularly the collegial hyperconnected 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 14 - OVERPAID BY UPWARD SPIRAL INDICATORS

COMPANY	CEO PAY MULTIPLE TO DISCLOSED PEER MEDIAN	CEO PAY MULTIPLE TO ISS PEER MEDIAN	BENCHMARKED ABOVE 50	SALARY \$1.5 OR ABOVE	NON PERFORMANCE BONUS OVER \$150,000	HIGHEST RETIREMENT	ALL OTHER OVER \$500K	TOTAL
CBS Corporation	🚩🚩	🚩🚩		🚩🚩	🚩🚩	🚩	🚩🚩	11
Discovery Communications Inc.	🚩🚩	🚩🚩	🚩	🚩🚩		🚩	🚩🚩	10
Comcast Corporation	🚩	🚩		🚩🚩		🚩🚩	🚩🚩	8
General Electric Company		🚩		🚩🚩	🚩🚩	🚩🚩	🚩	8
Honeywell International Inc.	🚩	🚩		🚩	🚩🚩	🚩🚩	🚩	8
Oracle Corporation	🚩🚩	🚩🚩	🚩				🚩🚩	7
Precision Castparts Corp.	🚩🚩	🚩	🚩	🚩	🚩	🚩		7
American Express Company		🚩		🚩	🚩🚩	🚩	🚩	6

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.”³⁹ 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. 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.)⁴⁰ As You Sow purchased this information from ISS and simply sorted from greatest to smallest. We identified the 20% of companies that paid higher than their ISS-identified peers and awarded them red flags. ISS does a similar calculation using data that the company discloses about its chosen peers. We did a similar analysis with these.

Benchmarking at 50% or higher

There are two ways that peer benchmarking has contributed to the inflationary spiral of CEO pay. The first is 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 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.

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.

“Consultants typically establish benchmarks based on the pay of other CEOs, whose boards typically hire them for the same purpose. Since all boards want to demonstrate to their CEO as well as the analysts on Wall Street their willingness to pay generously for the very best, pay packages ratchet upward annually in this faux competition, conducted and directed by CEOs, for CEOs, in the interest of CEOs.”

- Robert B. Reich, *Saving Capitalism: For the Many, Not the Few*

FIGURE 15 – SUMMARY COMPENSATION TABLE FROM PROXY MATERIALS FOR DISCOVERY COMMUNICATIONS

NAME AND PRINCIPAL POSITION	YEAR	SALARY	STOCK AWARDS	OPTION AWARDS	NON-EQUITY INCENTIVE PLAN COMPENSATION	ALL OTHER COMPENSATION	TOTAL
David M. Zaslav – President and Chief Executive Officer	2014	\$3,000,000	\$94,555,285	\$50,504,282	\$6,082,359	\$1,935,986	\$156,077,912
	2013	\$3,000,000		\$22,538,835	\$5,799,700	\$2,011,963	\$33,349,798
	2013	\$3,000,000	\$25,326,916	\$15,843,215	\$5,329,750	\$432,986	\$49,932,867
Andrew Warren – Chief Financial Officer	2014	\$1,011,876	\$3,303,636	\$1,250,910	\$1,346,425	\$50,474	\$6,963,321
	2013	\$925,442	\$816,866	\$851,312	\$1,317,903	\$483,003	\$4,394,526
	2012	\$657,692	\$1,011,439	\$1,019,729	\$903,691	\$186,484	\$3,779,035
Bruce L. Campbell – Chief Development and Digital Officer, and General Counsel	2014	\$1,241,511	\$3,151,111	\$1,154,947	\$1,957,370	\$112,241	\$7,617,180
	2013	\$1,066,766	\$1,174,193	\$1,223,755	\$1,563,131	\$50,228	\$5,078,073
	2012	\$1,028,269	\$499,619	\$528,562	\$1,549,960	\$58,533	\$3,664,943

Source: U.S. SEC

* 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.

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 inflated 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 companies that paid salaries of \$1.5 million or higher.

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 2014 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, this year the Center for Effective Government and the Institute for Policy Studies released an important report, “The Tale of Two Retirements: Changing the Rules That Allow Platinum Pensions for CEOs and Increase Retirement Insecurity for the Rest of Us.”⁴¹ That report, in addition to analyzing the problematic structures involved, ranked Fortune 500 CEOs by amount of retirement assets. We gave red flags to the 100 highest. The report also calculated estimated monthly retirement checks for these individuals based on current assets, an estimate of \$1.3 million per month for the individual with the highest retirement savings.

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 additional severance and retirement benefits, are also not in the best interests of shareholders. There were 68 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.

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.

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 to 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.

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.

A reinforcing downward spiral can develop between short-term actions that raise pay but are ultimately bad for the long-term health of the company and its shareholders. This year has seen increasing coverage of just such issues. Some of the larger critique of pay in political circles has been around the issues of income inequality, but as the larger populace focuses more on the issue high-pay itself could damage a company's reputation or business. One study released conducted by a Harvard Business School student found that customers were more interested in buying a product produced in a fairer context. The article referring to this study in the *Harvard Business Review* was aptly entitled, “Is Your CEO's High Salary Scaring Away Customers?”⁴² Once again this year, we sought to look at several sustainability indicators.

FIGURE 16 – OVERPAID BY SUSTAINABILITY INDICATORS

COMPANY	SUSTAINABILITY CONCERNS COUPLED WITH HIGH PAY	VIOLATION TRACKER 2010-2014	TOTAL COMP AS % OF EBIT	TOTAL COMP AS % OF REVENUE	RATIO OF CEO PAY TO AVERAGE OFFICER	RATIO OF CEO PAY TO NEXT	TOTAL
Discovery Communications Inc.			🚩🚩	🚩🚩	🚩🚩	🚩🚩	8
Wynn Resorts, Limited	🚩		🚩	🚩	🚩🚩	🚩🚩	7
Yahoo! Inc.			🚩🚩	🚩🚩	🚩🚩	🚩	7
Bed Bath & Beyond Inc.	🚩		🚩		🚩🚩	🚩🚩	6
Hasbro, Inc.			🚩	🚩	🚩🚩	🚩🚩	6
Universal Health Services, Inc.			🚩	🚩	🚩🚩	🚩🚩	6
Chipotle Mexican Grill, Inc.	🚩		🚩	🚩🚩			4
Dominion Resources, Inc.		🚩			🚩	🚩	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 HIP 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 these criteria.

Government penalties may be an indication of poor long-term sustainability management

In this year's report we were able to include a new metric under sustainability concerns: the companies that have paid the largest fines. Such high fines may be an indication of a dangerous lack of attention to key elements of a company's sustainable future.

In October 2015, Good Jobs First made available a new database, Violation Tracker, which offers enforcement data from 13 federal regulatory agencies with responsibility for environmental, health, and safety issues.

As noted in "BP & Its Brethren: Identifying the Largest Violators of Environmental, Health, and Safety Laws in the United States," a report published by Good Jobs First, short-term decisions to cut costs contributed to the Deepwater Horizon disaster. This caused extraordinary harm to both the environment and to shareholder wealth.

The report included a table of "The 100 Corporate Parents with the Largest Environmental, Health, and Safety Penalty Totals since 2010." We compared this list to the list of CEOs with highest paid over the same time period and identified 17 companies that appeared on both lists, and thus received red flags.

Philip Mattera of Good Jobs First also ran a separate analysis based only on penalties finalized in 2014. This list was compared to the list of companies with the highest paid and highest annual bonuses in that the same year for a total of eight companies.

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 that 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. A similar ranking was done based on highest percentage of EBIT.

Ratio of CEO pay to other executive officers

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-focused 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 second highest active executive as well as average active NEO, and in this case we simply ranked them by these ratios 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. Good transitions such as this one illustrated are critical for the interests of long-term shareholders.

Third-Party Compensation Ratings

As You Sow also gathered the evaluations of experts in the field, who do a thorough analysis of pay and performance each using his or her own proprietary models. Each adds value to an analysis of compensation. This year we included two additional proxy advisory services to the list below.

Institutional Shareholder Services: vote recommendation

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."⁴³

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.

FIGURE 17 - COMPANIES WITH EIGHT OR MORE THIRD-PARTY CONCERN MEASURES

Agilent Technologies Inc
Bed Bath & Beyond Inc.
Bristol-Myers Squibb Company
Caterpillar Inc.
The Coca-Cola Company
Expeditors International of Washington
Halliburton Company
JPMorgan Chase & Co.
Oracle Corporation
Philip Morris International Inc.
Praxair, Inc.
salesforce.com, inc.
SL Green Realty Corp
Staples, Inc.
Vertex Pharmaceuticals Incorporated

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. Those that received red flags were those that received D, E, or F grade.

Glass Lewis

As You Sow also purchased a list of the companies that received scores of D or F in their Pay-for-Performance model from 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 that, “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.”

Marco Consulting

Financial consulting firm Marco Consulting Group has provided proxy voting services to Taft Hartley and Public Funds since 1989. In the last year the firm recommended against advisory votes on pay at over 200 companies in the S&P 500. MCG’s approach to MSOPs is to assess the alignment between pay and performance along with compensation plan features.

PIRC

One of the largest non-U.S. proxy advisory firms that cover U.S. companies is Pensions & Investment Research Consultants Ltd. (PIRC), with client assets over £1.5 billion. The firm recommended against votes at approximately 430 of the S&P 500 companies, with the highest level of opposition of such firms.

PIRC is concerned that the current compensation system is broken and incentivises executives to make risky short-term decisions, which are directly linked with the performance conditions attached to their variable pay, instead of properly aligning the executives’ interest in providing sustainable long-term growth.

PIRC argues that executives have a fiduciary duty to carry out their job in the best interest of shareholders. To “align” their interest is a misconception, since this is essentially the core duty of an executive, for which they are already heavily compensated. On this basis, PIRC believes that base salary should be the primary vehicle for compensating executives because base salary is, in PIRC’s view, the up-front negotiated price for doing the job. Variable pay should be used to award exceptional performance, not as an expected supplement to an annual salary. In addition, PIRC opposes all forms of retention awards, which are not considered appropriate, as they do not link pay with performance.

Vote data

The remaining criteria we used under this category was related to past votes. We looked at both the most recent votes and the average three-year opposition to management advisory votes on compensation. We gave red flags to the 100 companies that received the lowest vote over the prior year. We also considered the three-year 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. 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 pay-performance measure, many CEOs are being paid entirely too much and that means 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 who 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 often 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 a more inexorable problem. CEOs 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. Responsible investors are leading the way in providing reasonable solutions:

- **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.** These intermediaries are legally required to vote their proxies, and with enough shareholder pressure will cast a 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, shareholder must withhold votes from these directors and remove them from the board.

When the boardroom doors are closed and collegiality reigns, it seems impossible to effect change and that much of this seems out of shareholder's control. But 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.

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION	RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	DISCOVERY COMMUNICATIONS, INC.	David Zaslav	\$156,077,912	51	BLACKROCK, INC.	Laurence Fink	\$23,862,458
2	ORACLE CORPORATION	Safra A. Catz/Mark Hurd	\$75,335,428	52	OMNICOM GROUP INC.	John Wren	\$24,014,697
3	CBS CORPORATION	Leslie Moonves	\$57,175,645	53	INTERNATIONAL BUSINESS MACHINES CORP.	Virginia Rometty	\$19,345,125
4	CHIPOTLE MEXICAN GRILL, INC.	Steve Ells & Monty Moran	\$57,077,473	54	UNIVERSAL HEALTH SERVICES, INC.	Alan Miller	\$18,425,575
5	MICROSOFT CORPORATION	Satya Nadella	\$84,308,755	55	TWENTY-FIRST CENTURY FOX, INC.	Rupert Murdoch	\$29,247,871
6	VERTEX PHARMACEUTICALS INCORPORATED	Jeffrey Leiden	\$36,635,468	56	PEPSICO, INC.	Indra Nooyi	\$22,485,574
7	YAHOO! INC.	Marissa Mayer	\$42,083,508	57	CHUBB CORP.	John Finnegan	\$17,841,294
8	EXXON MOBIL CORPORATION	Rex Tillerson	\$33,096,312	58	ALCOA INC.	Klaus Kleinfeld	\$18,158,522
9	QUALCOMM, INC.	Steven Mollenkopf	\$60,740,592	59	STARBUCKS CORPORATION	Howard Schultz	\$21,466,454
10	GENERAL ELECTRIC COMPANY	Jeffrey Immelt	\$37,250,774	60	BROADCOM CORPORATION	Scott McGregor	\$16,451,411
11	SALESFORCE.COM, INC.	Marc Benioff	\$39,907,534	61	MERCK & CO., INC.	Kenneth Frazier	\$25,029,370
12	HONEYWELL INTERNATIONAL INC.	David Cote	\$29,142,121	62	TRAVELERS COMPANIES INC	Jay Fishman	\$20,435,381
13	THE WALT DISNEY COMPANY	Robert Iger	\$46,497,018	63	PROLOGIS INC.	Hamid Moghadam	\$16,514,721
14	BRISTOL-MYERS SQUIBB COMPANY	Lamberto Andreotti	\$27,062,382	64	CATERPILLAR INC.	Douglas Oberhelman	\$17,131,448
15	VIACOM, INC.	Phillipe Duncan	\$44,334,858	65	ADOBE SYSTEMS INCORPORATED	Shantanu Narayen	\$17,890,918
16	JPMORGAN CHASE & CO.	James Dimon	\$27,701,709	66	PFIZER INC.	Ian Read	\$23,283,048
17	PRUDENTIAL FINANCIAL INC.	John Strangfeld	\$37,483,092	67	THE BOEING COMPANY	James McNerney	\$28,861,920
18	THE COCA-COLA COMPANY	Muhtar Kent	\$25,224,422	68	GENERAL DYNAMICS CORPORATION	Phoebe Novakovic	\$19,388,084
19	REGENERON PHARMACEUTICALS INC.	Leonard Shiefer	\$41,965,424	69	PPG INDUSTRIES, INC.	Charles Bunch	\$21,628,081
20	CVS HEALTH CORPORATION	Larry Merlo	\$32,350,733	70	CONOCOPHILLIPS	Ryan Lance	\$27,575,900
21	TARGET CORPORATION	Brian Cornell	\$28,164,024	71	PRECISION CASTPARTS CORP.	Mark Donegan	\$9,699,876
22	WYNN RESORTS, LIMITED	Stephen Wynn	\$25,322,854	72	LOCKHEED MARTIN CORPORATION	Marilyn Hewson	\$33,687,442
23	ALLERGAN PLC (FORMERLY ACTAVIS)	Brenton L. Saunders	\$36,613,829	73	T.J.X COMPANIES, INC.	Carol Meyrowitz	\$22,514,033
24	COMCAST CORPORATION	Brian Roberts	\$32,961,056	74	FORD MOTOR COMPANY	Mark Fields	\$18,596,497
25	BED BATH & BEYOND INC.	Steven H. Temaras	\$19,116,040	75	MONDELÉZ INTERNATIONAL, INC.	Irene Rosenfeld	\$21,039,946
26	MCKESSON CORPORATION	John Hammergen	\$25,919,882	76	PHILLIPS 66	Greg Garland	\$24,508,433
27	MORGAN STANLEY	James Gorman	\$23,270,044	77	ALEXION PHARMACEUTICALS, INC.	Leonard Bell	\$20,570,073
28	RALPH LAUREN CORPORATION	Ralph Lauren	\$24,537,936	78	THE DOW CHEMICAL COMPANY	Andrew Liveris	\$26,698,372
29	DOMINION RESOURCES, INC.	Thomas Farrell, II	\$20,612,945	79	JOHNSON & JOHNSON	Alex Gorsky	\$24,998,306
30	TIME WARNER CABLE INC.	Robert Marcus	\$34,615,597	80	THE PRICELINE GROUP INC.	Darren Huston	\$21,966,094
31	PRAXAIR, INC.	Stephen Angel	\$19,687,401	81	WELLS FARGO & COMPANY	John Stumpf	\$21,426,391
32	CABLEVISION SYSTEMS CORPORATION	James Dolan	\$23,702,403	82	TESORO CORPORATION	Gregory Goff	\$20,855,549
33	HALLIBURTON COMPANY	David Lesar	\$20,560,157	83	ABBOTT LABORATORIES	Miles D. White	\$17,732,241
34	ACE LIMITED	Evan G. Greenberg	\$19,678,174	84	SL GREEN REALTY CORP	Marc Holliday	\$16,354,061
35	ENDO INTERNATIONAL PLC	Rajiv De Silva	\$22,071,596	85	PROCTER & GAMBLE CO	A.G. Laffey	\$19,504,353
36	UNION PACIFIC CORPORATION	John Koraleski	\$28,144,047	86	HEWLETT-PACKARD	Margaret Whitman	\$19,612,164
37	AMERICAN EXPRESS COMPANY	Kenneth I. Chenault	\$22,796,083	87	BB&T CORPORATION	Kelly S. King	\$14,118,763
38	CHEVRON CORPORATION	John Watson	\$25,970,417	88	HASBRO, INC.	Brian Goldner	\$14,623,112
39	L BRANDS INC.	Leslie Wexner	\$24,094,036	89	STAPLES, INC.	Ronald Sargent	\$12,391,536
40	DEVON ENERGY CORP.	John Richels	\$21,611,030	90	TENET HEALTHCARE CORPORATION	Trevor Fetter	\$17,950,107
41	ROPER TECHNOLOGIES INC.	Brian Jellison	\$22,689,220	91	PHILIP MORRIS INTERNATIONAL INC.	Andre Calantzopoulos	\$14,124,869
42	CELGENE CORPORATION	Robert Hugin	\$24,236,113	92	FIRSTENERGY CORP.	Anthony Alexander	\$15,536,530
43	GOLDMAN SACHS GROUP, INC.	Lloyd Blankfein	\$22,162,912	93	BAXTER INTERNATIONAL INC.	Robert L. Parkinson	\$15,304,702
44	ANADARKO PETROLEUM CORPORATION	R. A. Walker	\$20,720,187	94	NORTHROP GRUMMAN CORPORATION	Wesley Bush	\$21,795,703
45	HESS CORPORATION	John Hess	\$22,459,530	95	EXELON CORPORATION	Christopher Crane	\$14,990,830
46	AMERIPRISE FINANCIAL, INC.	James M. Cracchiolo	\$24,455,192	96	LENNAR CORPORATION	Stewart Miller	\$17,909,543
47	AT&T INC.	Randall Stephenson	\$23,984,315	97	CAPITAL ONE FINANCIAL CORP.	Richard Fairbank	\$19,606,474
48	TIME WARNER INC.	Jeffrey Bewkes	\$32,903,139	98	UNUM GROUP	Thomas Watjen	\$13,314,589
49	XEROX CORPORATION	Ursula Burns	\$22,205,362	99	SCHLUMBERGER LIMITED.	Paal Kibsgaard	\$18,518,374
50	DEERE & COMPANY	Samuel Allen	\$20,273,296	100	AFLAC INCORPORATED	Daniel P. Amos	\$15,477,348

APPENDIX B – OPPOSITION TO OVERPAID CEO PAY PACKAGES BY MUTUAL FUND FAMILIES

This table summarizes the CEO pay package 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 100 CEO pay package resolutions that came to vote at 100 companies included in this survey during the 2014 proxy season. As noted in the report, there were a total of nine companies that met our overpaid criteria but did not hold votes during the time. In lieu of these the following nine companies, with an assortment of compensation issues, were added to the list: Agilent Technologies Inc., American Tower Corp., Expeditors International, HCP, Inc., Invesco Ltd., Linear Technology, Macerich, Pinnacle West Capital Corporation, and Plum Creek Timber Company.

It also shows a “unique” vote count, and corresponding percent support, where a vote on each of the 100 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 supported by each of three funds in the Aberdeen fund family, and Oracle’s say-on-pay resolution was opposed by four 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.

FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES				UNIQUE VOTES				NUMBER OF UNIQUES VOTES CAST
		ABSTAIN	AGAINST	FOR	OPPOSITION PERCENTAGE	ABSTAIN	AGAINST	FOR	OPPOSITION PERCENTAGE	
ABERDEEN	20		15	37	29%		5	15	25%	20
ALGER	53		77	216	26%		12	41	23%	53
ALLIANCEBERNSTEIN	98		240	627	28%		35	69	34%	104
ALLIANZ	91		88	297	23%		25	68	27%	93
AMERICAN	75		103	318	24%		30	59	34%	89
AMERICAN BEACON	78	2	36	162	18%	1	25	72	26%	98
AMERICAN CENTURY	94		232	847	22%		18	77	19%	95
AMERICAN INDEPENDENCE	17		3	14	18%		3	14	18%	17
ARIEL	19		7	16	30%		6	15	29%	21
ARTISAN	22		8	19	30%		7	17	29%	24
ASTON	61		18	109	14%		13	56	19%	69
BARON	13		5	13	28%		4	9	31%	13
BERKSHIRE	7			7	0%			7	0%	7
BLACKROCK	99		29	675	4%		3	96	3%	99
BMO	31		8	27	23%		8	24	25%	32
BNY MELLON	99		55	191	22%		26	73	26%	99
BOSTON COMMON	17		7	10	41%		7	10	41%	17
BOSTON TRUST & WALDEN FUNDS	26		19	62	23%		6	20	23%	26
BRIDGEWAY	66		28	83	25%		15	51	23%	66
CALAMOS	78			359	0%			78	0%	78
CALVERT	99		226	43	84%		86	13	87%	99
COHEN & STEERS	35		12	80	13%		2	33	6%	35
COLUMBIA	99		372	829	31%		35	66	35%	101
CREDIT SUISSE	3		1	2	33%		1	2	33%	3
DAVIS	23		2	75	3%		1	22	4%	23
DELAWARE	67		96	230	29%		21	49	30%	70
DEUTSCHE/DWS	99		147	404	27%		26	73	26%	99
DIMENSIONAL	97		420	562	43%		45	52	46%	97
DODGE & COX	14			39	0%			14	0%	14
DOMINI	27		27		100%		27		100%	27
DREYFUS	100		194	720	21%		27	74	27%	101
EAGLE	36		3	37	8%		3	35	8%	38
EATON VANCE	92		129	459	22%		35	88	28%	123
FEDERATED	97		85	374	19%		16	81	16%	97
FIDELITY	100		233	2567	8%		26	98	21%	124
FIDELITY - STRATEGIC ADVISERS	94		163	675	19%		36	91	28%	127
FIRST EAGLE	17		8	30	21%		3	14	18%	17
FMI	7		6	2	75%		5	2	71%	7
FRANKLIN TEMPLETON	90	5	97	496	16%	2	29	74	28%	105
GABELLI	67	31		300	0%	6		61	0%	67
GE	99		32	434	7%		15	98	13%	113
GMO	54		53	88	38%		18	36	33%	54
GOLDMAN SACHS	100		35	633	5%		13	97	12%	110
GREEN CENTURY	40	45			0%	40			0%	40
GUIDESTONE	93	1	23	300	7%	1	15	93	14%	109
HARBOR	40		2	47	4%		2	38	5%	40

Continued on next page

FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES				UNIQUE VOTES				NUMBER OF UNIQUES VOTES CAST
		ABSTAIN	AGAINST	FOR	SUPPORT PERCENTAGE	ABSTAIN	AGAINST	FOR	SUPPORT PERCENTAGE	
HARTFORD	80		19	497	4%		4	76	5%	80
HSBC	19		2	37	5%		1	18	5%	19
INTEGRITY	31		7	24	23%		7	24	23%	31
INVESCO	99		187	756	20%		24	79	23%	103
JACKSON	100		154	560	22%		53	96	36%	149
JANUS	87	7	96	395	19%	3	21	69	23%	93
JOHN HANCOCK	100	2	229	914	20%	1	37	97	27%	135
JP MORGAN	100		238	1058	18%		22	81	21%	103
LAZARD	49		31	81	28%		11	38	22%	49
LEGG MASON	86	4	76	275	21%	1	32	70	31%	103
LIBERTY	43		11	40	22%		9	34	21%	43
LORD ABBETT	71		11	258	4%		4	67	6%	71
MAINSTAY	100		155	554	22%		27	84	24%	111
MANAGERS/AMG	81		58	171	25%		31	66	32%	97
MASSMUTUAL	99	1	132	476	22%	1	43	98	30%	142
METROPOLITAN	99		27	76	26%		26	74	26%	100
MFS	77		257	737	26%		19	58	25%	77
MORGAN STANLEY	95		48	150	24%		22	73	23%	95
NATIONWIDE	100		110	570	16%		36	100	26%	136
NATXIS	71		28	105	21%		19	57	25%	76
NEUBERGER BERMAN	82		71	262	21%		22	64	26%	86
NORTHERN	99		25	294	8%		18	96	16%	114
NUVEEN	100		109	366	23%		26	77	25%	103
OAKMARK	16		4	24	14%		2	14	13%	16
OPPENHEIMER	71		74	236	24%		17	56	23%	73
PARNASSUS	15		6	27	18%		3	12	20%	15
PAX	55		64	88	42%		38	24	61%	62
PIMCO	19		23	30	43%		7	12	37%	19
PIONEER	63		26	218	11%		10	53	16%	63
PRAXIS	70		34	68	33%		24	46	34%	70
PRIMECAP ODYSSEY	30		1	51	2%		1	29	3%	30
PRINCIPAL	100	2	291	853	25%	2	44	93	32%	139
PRUDENTIAL	99		237	707	25%		36	83	30%	119
PUTNAM	86		204	896	19%		19	67	22%	86
QUAKER	21		13	21	38%		7	14	33%	21
RBC	2		1	1	50%		1	1	50%	2
ROYCE	5	3	5	4	42%	1	1	3	20%	5
RS	99		43	113	28%		27	73	27%	100
RUSSELL	98		323	449	42%		42	56	43%	98
SCHRODER	73		12	82	13%		10	63	14%	73
SCHWAB	99		395	733	35%		35	64	35%	99
SCOUT	15		5	11	31%		5	10	33%	15
SEI	99		403	711	36%		38	64	37%	102
STATE FARM	20		14	26	35%		7	13	35%	20
STATE STREET	99		34	224	13%		13	89	13%	102
STATE STREET (IAM SHARES Fund)	12		7	5	58%		7	5	58%	12
STEWART	90			98	0%			90	0%	90
SUNAMERICA	94		102	301	25%		23	71	24%	94
T ROWE	100		55	1197	4%		8	92	8%	100
TCW	40			69	0%			40	0%	40
TD	41		22	60	27%		9	32	22%	41
THORNBURG	18		5	20	20%		4	14	22%	18
THRIVENT	97		210	553	28%		27	79	25%	106
TIAA-CREF	99		35	894	4%		4	95	4%	99
TOUCHSTONE	49	1	12	72	14%	1	11	45	19%	57
TRANSAMERICA	98	2	138	574	19%	1	43	92	32%	136
TRILLIUM/PORTFOLIO 21	8		6	2	75%		6	2	75%	8
UBS	35		18	161	10%		4	31	11%	35
USAA	99		146	442	25%		27	73	27%	100
VALIC	96		139	368	27%		26	70	27%	96
VANGUARD	98		30	886	3%		3	95	3%	98
VICTORY	98		47	163	22%		42	77	35%	119
VIRTUS	71		63	153	29%		20	55	27%	75
VOYAGING	100		84	899	9%		15	86	15%	101
WADDELL & REED	54		1	136	1%		1	53	2%	54
WELLS FARGO	99		173	595	23%		22	77	22%	99
WILLIAM BLAIR	33		11	33	25%		8	25	24%	33
WISDOMTREE	93		118	368	24%		23	70	25%	93

APPENDIX C – OPPOSITION TO OVERPAID CEO PAY PACKAGES BY MUTUAL FUND FAMILIES PENSION FUNDS

There are 15 public pension funds that disclose their votes online. The rest of the data was obtained either through formal open records requests or more informally. In addition, the category “other” below includes funds that university endowments, foundations, and labor related funds.

INSTITUTION NAME	INSTITUTION TYPE	TOTAL ASSETS (US \$ MILLIONS)	NUMBER OF PROXIES VOTED	OPPOSITION PERCENTAGE
AFL-CIO	other		91	25%
AMALAGAMATED LONGVIEW	other		100	22%
BC INVESTMENT MANAGEMENT CORP.	Pension Fund	\$123,600	100	24%
CALIFORNIA PUBLIC EMPLOYEES	Pension Fund	\$296,744	100	53%
CALIFORNIA STATE TEACHERS	Pension Fund	\$186,954	99	53%
CANADA PENSION PLAN	Pension Fund	\$228,431	95	72%
CHICAGO TEACHERS PENSION	Pension Fund	\$10,720	98	26%
COLORADO PUBLIC EMPLOYEES	Pension Fund	\$47,644	100	62%
CONNECTICUT RETIREMENT	Pension Fund	\$28,932	99	67%
FLORIDA STATE BOARD	Pension Fund	\$154,657	98	30%
ILLINOIS STATE BOARD	Pension Fund	\$18,890	97	64%
INDIANA PUBLIC RETIREMENT	Pension Fund	\$29,833	94	83%
KENTUCKY TEACHERS RETIREMENT	Pension Fund	\$19,469	92	75%
LOS ANGELES COUNTY EMPLOYEES	Pension Fund	\$46,643	72	78%
LOS ANGELES FIRE & POLICE	Pension Fund	\$18,380	92	63%
LOUISIANA TEACHERS RETIREMENT	Pension Fund	\$16,606	59	80%
LOYOLA UNIVERSITY	other	\$2,120	21	71%
MAINE PUBLIC EMPLOYEES RETIREMENT	Pension Fund	\$13,298	93	66%
MARYLAND STATE RETIREMENT	Pension Fund	\$44,746	94	74%
MASSACHUSETTS PRIM	Pension Fund	\$59,919	94	64%
NATHAN CUMMINGS	other	\$448	99	22%
NEVADA PUBLIC EMPLOYEES	Pension Fund	\$33,309	94	66%
NEW HAMPSHIRE RETIREMENT	Pension Fund	\$7,572	91	76%
NEW JERSEY PUBLIC EMPLOYEES	Pension Fund	\$81,884	82	78%
NEW MEXICO PUBLIC EMPLOYEES	Pension Fund	\$14,870	83	92%
NEW YORK CITY RETIREMENT	Pension Fund	\$158,702	100	34%
NEW YORK STATE COMMON	Pension Fund	\$178,252	100	39%
OHIO PUBLIC EMPLOYEES	Pension Fund	\$90,942	100	43%
OHIO STATE TEACHERS	Pension Fund	\$73,380	100	74%
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT	Pension Fund	\$9,741	50	80%
OKLAHOMA TEACHERS	Pension Fund	\$13,989	97	91%
ONTARIO TEACHERS' PENSION PLAN	Pension Fund	\$133,282	87	74%
OREGON PUBLIC EMPLOYEES	Pension Fund	\$71,571	94	66%
PENNSYLVANIA SCHOOL EMPLOYEES	Pension Fund	\$51,095	89	63%
TEXAS EMPLOYEES	Pension Fund	\$28,544	98	74%
TEXAS TEACHERS' RETIREMENT	Pension Fund	\$128,933	99	75%
UNIVERSITY OF CALIFORNIA	other	\$58,107	91	75%
UNIVERSITY OF MICHIGAN	other	\$18,478	24	85%
UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT	other	\$17,994	47	70%
VIRGINIA RETIREMENT SYSTEM	Pension Fund	\$67,866	83	75%
WISCONSIN INVESTMENT BOARD	Pension Fund	\$100,214	100	63%

APPENDIX D – 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 to be paired with performance for that year.
- CEO Pay, all years: The raw data is filtered based on ISS identification of the CEO. The series is supplemented using a Thomson Reuters Asset4 data set 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. Where ISS identifies multiple co-CEOs, their pay packages are added together. Once the full set of pay packages is assembled, each (company, year) value is paired with the performance for that year, and this full set is used for the regression.
- CEO Pay, most recent available: Rather than using all (company, year) pairs, only the most recent available CEO pay package is used, along with performance trailing from that year.
- Summed: Aggregating all money paid out to ISS-identified executives for the year.
- Averaged: Dividing the previous summed data point by the number of distinct executives for the year.

Each type of executive pay could be reported in any year from 2007-2015, 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). ROIC is sourced from Thomson Reuters WorldScope, which sources data from companies' annual reports and investor filings.
- Total Return (capital gains and dividends) on the company's primary equity. This is calculated from the Thomson Reuters DataStream Return Index series, using trailing periods behind June 30 of the year of the pay package as identified by ISS (or matching the year for the supplementary largest package data from Asset4).

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.

At some time in the future it may be illuminating to re-run these analyses using the logarithm of the pay value, and performance measured as $\log(\text{return index end value} / \text{return index start value})$. Additional independent variables could be added to a multiple regression. Of particular interest may be $\log(\text{market cap, as measured at some point or averaged across some period})$, and $\log(\text{number of employees for the relevant year})$.

RANK	COMPANY	CEO	CEO PAY VALUE	EXCESS RELATIVE TO REGRESSION
1	DISCOVERY COMMUNICATIONS, INC.	David M. Zaslav	\$156,077,912.00	\$142,258,414.57
2	MICROSOFT CORPORATION	Satya Nadella	\$84,308,755.00	\$71,837,305.07
3	ORACLE CORPORATION	Safra A. Catz and Mark Hurd	\$75,335,428.00	\$62,878,734.83
4	QUALCOMM, INC.	Steven M. Mollenkopf	\$60,740,592.00	\$48,379,119.38
5	CHIPOTLE MEXICAN GRILL, INC.	Steve Ells and Monty Moran	\$57,077,473.00	\$40,786,070.22
6	CBS CORPORATION	Leslie Moonves	\$57,175,645.00	\$40,048,681.79
7	THE WALT DISNEY COMPANY	Robert A. Iger	\$46,497,018.00	\$32,178,752.89
8	VIACOM, INC.	Philippe P. Dauman	\$44,334,858.00	\$29,868,251.80
9	YAHOO! INC.	Marissa A. Mayer	\$42,083,508.00	\$29,310,423.09
10	PRUDENTIAL FINANCIAL INC.	John R. Strangfeld	\$37,483,092.00	\$24,189,914.82
11	GENERAL ELECTRIC COMPANY	Jeffrey R. Immelt	\$37,250,774.00	\$24,064,362.11
12	VERTEX PHARMACEUTICALS INCORPORATED	Jeffrey M. Leiden	\$36,635,468.00	\$23,438,711.03
13	REGENERON PHARMACEUTICALS INC.	Leonard S. Schleifer	\$41,965,424.00	\$22,973,966.93
14	EXXON MOBIL CORPORATION	Rex W. Tillerson	\$33,096,312.00	\$21,118,524.49
15	LOCKHEED MARTIN CORPORATION	Marilyn A. Hewson	\$33,687,442.00	\$20,703,635.31
16	ALLERGAN PLC (FORMERLY ACTAVIS)	Brenton L. Saunders	\$36,613,829.00	\$20,689,610.77
17	TIME WARNER CABLE INC.	Robert D. Marcus	\$34,615,597.00	\$19,424,582.06
18	CVS HEALTH CORPORATION	Larry J. Merlo	\$32,350,733.00	\$19,261,593.57
19	TIME WARNER INC.	Jeffrey L. Bewkes	\$32,903,139.00	\$18,890,364.53
20	COMCAST CORPORATION	Brian L. Roberts	\$32,961,056.00	\$18,516,048.95
21	AVAGO TECHNOLOGIES	Hock E. Tan	\$31,867,129.00	\$18,482,923.55
22	TARGET CORPORATION	Brian C. Cornell	\$28,164,024.00	\$16,194,689.77
23	SALESFORCE.COM, INC.	Marc Benioff	\$31,333,332.00	\$15,679,286.54
24	JPMORGAN CHASE & CO.	James Dimon	\$27,701,709.00	\$15,403,973.67
25	HONEYWELL INTERNATIONAL INC.	David M. Cote	\$29,142,121.00	\$15,272,244.74
26	THE BOEING COMPANY	W. James McNerney, Jr.	\$28,861,920.00	\$14,970,975.79
27	TWENTY-FIRST CENTURY FOX, INC.	Rupert Murdoch	\$29,247,871.00	\$14,480,955.56
28	CONOCOPHILLIPS	Ryan M. Lance	\$27,575,900.00	\$13,775,549.97
29	UNION PACIFIC CORPORATION	John J. Koraleski	\$28,144,047.00	\$13,615,020.13
30	BRISTOL-MYERS SQUIBB COMPANY	Lamberto Andreotti	\$27,062,382.00	\$13,553,009.26
31	CHEVRON CORPORATION	John S. Watson	\$25,970,417.00	\$13,092,128.50
32	THE COCA-COLA COMPANY	Muhtar Kent	\$25,224,422.00	\$12,693,645.84
33	THE DOW CHEMICAL COMPANY	Andrew Liveris	\$26,698,372.00	\$12,549,397.91
34	JOHNSON & JOHNSON	Alex Gorsky	\$24,989,306.00	\$12,296,216.95
35	MORGAN STANLEY	James P. Gorman	\$23,270,044.00	\$12,058,692.55
36	MERCK & CO., INC.	Kenneth C. Frazier	\$25,029,370.00	\$11,932,948.79
37	AT&T INC.	Randall Stephenson	\$23,984,315.00	\$11,651,102.85
38	CABLEVISION SYSTEMS CORPORATION	James L. Dolan	\$23,702,403.00	\$11,450,857.81
39	BLACKROCK, INC.	Laurence D. Fink	\$23,862,458.00	\$11,287,691.08
40	MCKESSON CORPORATION	John H. Hammergren	\$25,919,882.00	\$11,253,533.72
41	PHILLIPS 66	Greg C. Garland	\$24,508,433.00	\$11,181,470.27
42	OMNICOM GROUP INC.	John D. Wren	\$24,014,697.00	\$10,929,935.45
43	GOLDMAN SACHS GROUP, INC.	Lloyd C. Blankfein	\$22,162,912.00	\$10,909,197.27
44	RALPH LAUREN CORPORATION	Ralph Lauren	\$24,537,936.00	\$10,879,987.56
45	PFIZER INC.	Ian C. Read	\$23,283,048.00	\$10,340,025.62
46	CELGENE CORPORATION	Robert J. Hugin	\$24,236,113.00	\$10,177,037.62
47	PEPSICO, INC.	Indra K. Nooyi	\$22,485,574.00	\$10,156,986.67
48	HESS CORPORATION	John B. Hess	\$22,459,530.00	\$10,095,615.52
49	DEVON ENERGY CORP.	John Richels	\$21,611,030.00	\$9,775,550.11
50	XEROX CORPORATION	Ursula M. Burns	\$22,205,362.00	\$9,567,805.93
51	AMERIPRISE FINANCIAL, INC.	James M. Cracchiolo	\$24,455,192.00	\$9,129,186.67

Continued on next page

RANK	COMPANY	CEO	CEO PAY VALUE	EXCESS RELATIVE TO REGRESSION
52	HEWLETT-PACKARD	Margaret C. Whitman	\$19,612,164.00	\$8,896,250.31
53	ROPER TECHNOLOGIES INC.	Brian D. Jellison	\$22,689,220.00	\$8,852,794.41
54	WYNN RESORTS, LIMITED	Stephen A. Wynn	\$25,322,854.00	\$8,684,154.17
55	ABBVIE INC.	Richard A. Gonzalez	\$22,006,271.00	\$8,549,447.71
56	WELLS FARGO & COMPANY	John G. Stumpf	\$21,426,391.00	\$8,490,154.87
57	TJX COMPANIES, INC.	Carol Meyrowitz	\$22,514,033.00	\$8,450,380.57
58	AMERICAN EXPRESS COMPANY	Kenneth I. Chenault	\$22,796,083.00	\$8,156,047.33
59	NORTHROP GRUMMAN CORPORATION	Wesley G. Bush	\$21,795,703.00	\$7,919,363.23
60	MONDELÉZ INTERNATIONAL, INC.	Irene Rosenfeld	\$21,039,946.00	\$7,851,545.91
61	ENDO INTERNATIONAL PLC	Rajiv De Silva	\$22,071,596.00	\$7,768,086.54
62	L BRANDS INC.	Leslie H. Wexner	\$24,094,036.00	\$7,763,441.11
63	ANADARKO PETROLEUM CORPORATION	R. A. Walker	\$20,720,187.00	\$7,677,171.56
64	DOMINION RESOURCES, INC.	Thomas F. Farrell II	\$20,612,945.00	\$7,414,994.07
65	PROCTER & GAMBLE CO	A.G. Lafley	\$19,504,353.00	\$7,293,503.86
66	TRAVELERS COMPANIES INC	Jay S. Fishman	\$20,435,381.00	\$7,257,672.96
67	DEERE & COMPANY	Samuel R. Allen	\$20,273,296.00	\$7,186,692.81
68	PRAXAIR, INC.	Stephen F. Angel	\$19,687,401.00	\$7,119,707.36
69	STATE STREET CORPORATION	Joseph L. Hooley	\$18,842,196.00	\$7,044,541.25
70	INTERNATIONAL BUSINESS MACHINES CORP.	Virginia M. Rometty	\$19,345,125.00	\$6,993,082.53
71	3M COMPANY	Inge G. Thulin	\$20,115,589.00	\$6,846,185.18
72	BED BATH & BEYOND INC.	Steven H. Temares	\$19,116,040.00	\$6,814,441.80
73	HALLIBURTON COMPANY	David J. Lesar	\$20,560,157.00	\$6,475,435.01
74	ACE LIMITED	Evan G. Greenberg	\$19,678,174.00	\$6,471,430.00
75	GENERAL ELECTRIC COMPANY	Phebe N. Novakovic	\$19,388,084.00	\$6,449,718.43
76	JOHNSON CONTROLS, INC.	Alex A. Molinaroli	\$19,540,681.00	\$6,435,668.56
77	ALCOA INC.	Klaus Kleinfeld	\$18,158,522.00	\$6,358,599.42
78	PPG INDUSTRIES, INC.	Charles E. Bunch	\$21,628,081.00	\$6,348,550.80
79	U.S. BANCORP	Richard K. Davis	\$19,373,076.00	\$6,158,673.84
80	TESORO CORPORATION	Gregory J. Goff	\$20,855,549.00	\$5,930,761.86
81	STARBUCKS CORPORATION	Howard Schultz	\$21,466,454.00	\$5,889,702.21
82	SCHLUMBERGER LIMITED.	Paal Kibsgaard	\$18,518,374.00	\$5,631,095.80
83	VERIZON COMMUNICATIONS INC.	Lowell McAdam	\$18,306,509.00	\$5,569,017.47
84	CAPITAL ONE FINANCIAL CORP.	Richard D. Fairbank	\$19,606,474.00	\$5,290,437.93
85	ABBOTT LABORATORIES	Miles D. White	\$17,732,241.00	\$5,125,783.78
86	INGERSOLL-RAND INC	Michael W. Lamach	\$19,417,506.00	\$5,057,836.47
87	FORD MOTOR COMPANY	Mark Fields	\$18,596,497.00	\$5,026,451.27
88	GILEAD SCIENCES, INC	John C. Martin	\$18,957,994.00	\$4,939,178.23
89	CISCO SYSTEMS, INC	John Chambers	\$16,488,184.00	\$4,825,887.47
90	GOODYEAR TIRE & RUB.	Richard J. Kramer	\$17,853,097.00	\$4,812,395.85
91	ADOBE SYSTEMS INCORPORATED	Shantanu Narayen	\$17,890,918.00	\$4,772,101.14
92	THE ARCHER DANIELS MIDLAND COMPANY	Patricia A. Woertz	\$17,022,941.00	\$4,761,781.92
93	CHUBB CORP.	John D. Finnegan	\$17,841,294.00	\$4,671,658.28
94	BROADCOM CORPORATION	Scott A. McGregor	\$16,451,411.00	\$4,560,779.42
95	FIRSTENERGY CORP.	Anthony J. Alexander	\$15,563,530.00	\$4,393,593.70
96	THE PRICELINE GROUP	Darren Huston	\$21,966,094.00	\$4,381,755.20
97	EXELON CORPORATION	Christopher M. Crane	\$14,990,830.00	\$4,371,015.89
98	TRANSOCEAN LTD.	Steven L. Newman	\$14,248,615.00	\$4,227,006.31
99	ALEXION PHARMACEUTICALS, INC.	Leonard Bell	\$20,570,703.00	\$4,192,892.02
100	THE HERSHEY COMPANY	John P. Billrey	\$17,777,401.00	\$4,173,440.12

APPENDIX E – DIRECTORS ON COMPENSATION COMMITTEES OF MULTIPLE COMPANIES WITH OVERPAID CEOs

This table lists directors who serve on the compensation committees of more than one company on our list. The table also provides information on other boards they serve on as well as their primary or former affiliation.

DIRECTOR	COMPENSATION COMMITTEES AT S&P 500 COMPANIES	OTHER BOARDS	PRIMARY AFFILIATION
Barr, William P.	Dominion Resources, Inc.; Time Warner Inc.	Selected Funds	Former VP Verizon Communications
Bethune, Gordon M.	Honeywell International Inc.; Prudential Financial Inc.	Sprint Corporation	Retired CEO Continental Airlines, Managing Director of g-b1 Partners
Bollenbach, Stephen F.	Mondelēz international, Inc.; Time Warner Inc.	KB Home; Macy's; Moelis & Company	Former CEO Hilton Hotels
Burns, M. Michele	Alexion Pharmaceuticals; Inc.; Goldman Sachs Group	Cisco Systems, Inc.; Etsy, Inc.	Center Fellow and Strategic Advisor, Stanford University Center on Longevity
Calhoun, David L.	The Boeing Company; Caterpillar Inc.	Nielsen Holdings N.V.	Managing Director Blackstone Group
Collins, Jr., Arthur D.	Alcoa Inc.; The Boeing Company	Cargill, Inc.; U.S. Bancorp	Senior Advisor Oak Hill Capital Partners (private equity)
Duberstein, Kenneth M.	The Boeing Company; Travelers Companies Inc	Mack-Cali Realty Corporation	Chairman & CEO The Duberstein Group (Consulting Company)
Gerber, Murry S.	BlackRock; Inc., Halliburton Company	U.S. Steel Corporation	
Gordon, Bruce S.	CBS Corporation; Northrop Grumman Corporation	The ADT Corporation	Retired Executive of Verizon Communications
Johnson, James A.*	Goldman Sachs Group, Inc.; Target Corporation		Chair, Johnson Capital Partners (Consulting)
Krapek, Karl J.	Northrop Grumman Corporation; Prudential Financial Inc.		Retired United Technologies executive
McNerney, Jr., W. James	International Business Machines Corp.; Procter & Gamble Co		Chair, CEO Boeing
Morris, Michael G.	Alcoa Inc.; L Brands Inc.	The Hartford Financial Services Group, Inc.; Spectra Energy Corp	Retired Chairman Electric Power
Myers, Richard B.	Deere & Company; Northrop Grumman Corporation	Aon plc; United Technologies Corporation	Former Chairman, Joint Chiefs of Staff
Osborn, William A.	Abbott Laboratories; General Dynamics Corporation; Caterpillar Inc.		Former Chair & CEO of Northern Trust Corporation
Palmisano, Samuel J.	American Express Company; Exxon Mobil Corporation		Former Chairman, President, & CEO IBM
Prince, Charles	Johnson & Johnson; Xerox Corporation		Former CEO Citigroup Inc.
Russo, Patricia F.	Alcoa Inc.; Hewlett-Packard; Merck & Co., Inc.	General Motors Company	Former CEO Alcatel-Lucent S.A.
Webb, Maynard G.	salesforce.com, inc.; Yahoo! Inc.	Evenwise	Webb Investment Network, Venture Capital
Weldon, William C.	CVS Health Corporation; Exxon Mobil Corporation; JPMorgan Chase & Co.	Chubb Limited	Former Chair & CEO Johnson & Johnson
Williams, Ronald A.	American Express Company; The Boeing Company; Johnson & Johnson	Envision Healthcare Holdings, Inc.	Chairman & CEO of RW2 Enterprises, LLC (consulting)

* Johnson retired from the board at the date of the annual meeting

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