



GMI's 2011 CEO Pay Survey

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Executive Summary

GMI's CEO Pay Survey 2011, one of the largest surveys of CEO compensation in North America, is based on analysis of the Russell 3000 and S&P 500 companies. Only 2,132 CEOs were in the job for the whole of the last two fiscal years, so it is on this smaller sample that changes in CEO compensation were calculated. This is a survey of annual and realized compensation paid to CEOs in 2011 for fiscal year 2010.

Key findings of the survey include:

- Total Realized Compensation in the S&P 500 rose by about 36 percent.
- Total Realized Compensation in the Russell 1000 rose by more than 38 percent.
- Total Realized Compensation in the Russell 3000 rose by 27 percent.
- Total Annual Compensation in the Russell 3000 increased by 13 percent.
- Three of the 10 highest-paid CEOs of 2010 are from the Health Care Providers & Services industry, including the top two.
- Four of the 10 highest-paid CEOs of 2010 were retired or terminated executives receiving exit packages.
- Perks in the S&P 500 rose 11 percent from 2009 to 2010.
- Three of the five highest-paid CEOs of 2010 received single-year pension and deferred compensation increases of roughly \$14 million.

Total Annual Compensation Includes:

- base salary
- bonus
- non-equity incentive compensation
- all other compensation

Total Realized Compensation Includes:

- total annual compensation
- change in pension and non-qualified deferred compensation (NQDC)
- value realized on exercise of options
- value realized on vesting of other equity
- any payments from a vested retirement benefit plan

Methodology

Source Data

Compensation data for the Russell 3000 was examined for purposes of this survey. Data was drawn from proxy statements filed between the start of September 2010 and the end of July 2011. Excluding those companies with CEOs who had not served for the full 12 months of the latest fiscal year because of promotions, appointments, or resignations reduced this number to 2,647 companies. The 2010 compensation-level analysis is based on this reduced sample. Increase calculations (the change from 2009 to 2010) are based on a matched sample of 2,132 CEOs who had been in that position for the whole of the last two most recent fiscal years. For this matched sample, instances where a CEO returned to receiving compensation following a period of pro bono or near pro bono work have been excluded from the analysis.

Definitions of Compensation

For the survey, *total realized compensation* continues to represent compensation that has been received by the CEO, rather than any notional estimates, accounting costs, or other uncertainties. For this reason, GMI's figures will differ from those of many other commentators and pay survey producers. Our figures also differ from the *total summary compensation* figures provided by companies in the proxy's Summary Compensation Table, which represents an accounting cost, rather than realized compensation received or receivable. While such other figures have value for certain purposes, GMI continues to be more interested in outcomes rather than inputs, real compensation rather than estimated compensation.

Aggregate Change Analysis

Total annual compensation rose by more than 13 percent in the Russell 3000 for 2010. Indeed, pay elements were up across the board, including base salary increases across all levels of the S&P and Russell indices. Increases in fixed forms of pay, such as salary and perquisites, contributed to the rise in total annual compensation, as did the ability for more companies to hit pre-determined performance metrics than in the two years prior.

Total realized compensation rose roughly 27 percent in the Russell 3000 in 2010. The surge represents a considerable increase following consecutive years of pay declines in 2008 and 2009. In addition to annual pay elements contributing to this rise, CEOs saw greater profits in stock option exercises and vested stock during 2010. The median value of stock option profits rose from \$950,400 in 2009 to more than \$1.3 million in 2010. Likewise, the median value of restricted stock profits climbed from \$480,000 in 2009 to \$794,042 in 2010.

"CEOs saw greater profits in stock option exercises and vested stock during 2010."

Table 1: Summary Increases 2008-2010 (Source: GMI)*			
	2008 Median	2009 Median	2010 Median
	Increase/Decrease	Increase/Decrease	Increase/Decrease
Base Salary	4.54%	1.78%	2.16%
Total Annual Compensation	-0.08%	1.63%	13.09%
Total Realized Compensation	-6.38%	-0.28%	27.19%
	Values	Values	Values
Base Salary	\$600,000	\$631,299	\$657,884
Total Annual Compensation	\$1,028,257	\$1,133,087	\$1,422,817
Total Realized Compensation	\$1,713,132	\$1,877,956	\$2,520,576

* Percentages are matched sample calculations based on individual pay movements. Differences in aggregate median pay amounts may not reflect individual changes in pay.

Changes by S&P and Russell Indices

The median percentage increases in base salaries in the S&P 500 and Russell 1000 were 1.1 and 1.6 percent, respectively, over the past year. Indeed, median base salaries rose across all subsets of the Russell and S&P indices for the second all-over increase in as many years. There were more remarkable increases in total annual and total realized compensation, however. Compared to last year's review of 2008-2009 pay levels which had seen modest single digit increases or slight decreases in these figures, this 2009-2010 assessment is showing double-digit increases in annual compensation and jumps nearly double in magnitude for total realized pay. Specifically, for S&P 500 companies, annual compensation increased at the median by about 16.6 percent and total realized compensation rose by nearly 36.5 percent. In the Russell 1000, where most S&P 500 companies are also indexed, total annual compensation rose about 16.4 percent while total realized compensation climbed by 38.4 percent.

S&P Midcap and Smallcap companies followed this trend. Midcap companies rose by 14.5 percent in annual compensation while realized pay jumped 40.2 percent. Similarly, Smallcaps' percent increases at the median were 16.7 and 31.5 percent for annual compensation and realized pay, respectively. In the Russell 2000, both annual and realized pay rose, by 11.9 percent and 24.9 percent, respectively. These increases in total realized compensation seem due to the overall market rebound having resulted in cashing in of options and restricted stock grants. There was also a median increase of 14.5 percent in cash bonuses in the Russell 3000 sample which seems to have driven the increase in total annual pay; we did not analyze the specific targets involved in these bonuses, however, so we cannot opine as to whether this increase in payouts is due to a weakening of targets, market-wide rebounds in common metrics, or merit.

Some of the larger companies saw larger increases in pay – the median increases in the Russell 2000's total annual and total realized pay were overshadowed by those in the larger market cap companies of the Russell 1000. The Russell 1000 increases were either on par with or slightly higher than the larger companies in the S&P 500 (the S&P 500 median percentage increase having surpassed the Russell 1000 for total annual pay, but not for base salary or total realized pay.) However, some smaller companies saw disproportionate increases in fixed pay. For example, the base salary median increase in the S&P Smallcaps was the largest of all indices analyzed, with the same holding true for total annual pay. Similarly, the median base salary increase in the Russell 2000 was larger than that of the Russell 1000. Interestingly, the S&P Midcaps' median increase percentage reigned supreme with respect to total realized compensation, higher than those of the S&P 500 and the Russell indices. So although absolute dollar amounts still reflect the trend of larger market cap CEOs being awarded more pay (see Appendix II), the percentage increases this year showed some disproportionate gains in the smaller indices.

Most Highly Paid—Top 10 Highest-Paid CEOs of 2010

Three of the 10 highest-paid CEOs of 2010 are from the Health Care Providers & Services industry, including the top two positions on the list. Real Estate Investment Trusts were also represented twice among the year's top earners. Departing CEOs covered 40 percent of the top 10 list, profiting from large exit packages required by employment agreements.

Table 2: Median Pay Changes by S&P and Russell Indices 2009-2010 (Source: GMI)

	% Total annual compensation median increase	% Total realized compensation median increase	% Base salary median increase
S&P Smallcaps	16.74%	31.51%	2.46%
S&P Midcaps	14.45%	40.20%	2.00%
S&P 500	16.58%	36.47%	1.06%
Russell 1000	16.37%	38.42%	1.57%
Russell 2000	11.92%	24.94%	2.45%
Russell 3000	13.09%	27.91%	2.16%

"There was also a median increase of 14.5 percent in cash bonuses which seems to have driven the increase in total annual pay."

"Departing CEOs covered 40 percent of the top 10 list, profiting from large exit packages required by employment agreements."

Table 3: Top 10 Highest-Paid CEOs of 2010 (Source: GMI)

Company	CEO Name	Industry	Total Realized Compensation
McKesson Corporation	John H. Hammergren	Health Care Providers & Services	\$145,266,971
Omnicare, Inc.	Joel F. Gemunder	Health Care Providers & Services	\$98,283,242
TRW Automotive Holdings Corp.	John C. Plant	Auto Components	\$76,841,646
Verisk Analytics, Inc.	Frank Coyne	Professional Services	\$69,416,726
CVS Caremark Corporation	Thomas M. Ryan	Food & Staples Retailing	\$68,079,823
General Growth Properties, Inc.	Adam Metz	Real Estate Investment Trusts (REITs)	\$66,707,460
Polo Ralph Lauren Corporation	Ralph Lauren	Textiles, Apparel & Luxury Goods	\$66,651,515
Vornado Realty Trust	Michael D. Fascitelli	Real Estate Investment Trusts (REITs)	\$64,402,468
Aetna Inc.	Ronald A. Williams	Health Care Providers & Services	\$57,787,786
GAMCO Investors, Inc.	Mario J. Gabelli	Capital Markets	\$56,608,736

Bonuses, equity profits, pension payments, and perquisites (also known as “all other compensation”) were considerable among the highest-paid CEOs of 2010. (See below for pay component analysis and Appendix I for dollar amounts paid in all categories.) Time-based equity grants and cash bonus payments helped fuel some of the year’s most sizeable compensation packages. Substantial pension payments and other deferred compensation also accounted for significant portions of realized compensation.

“Substantial pension payments and other deferred compensation also accounted for significant portions of realized compensation in the top 10.”

These component payments appear to be more company-specific than industry-specific, however. For example, Mr. Metz at General Growth Properties, a REIT, received a \$46 million cash bonus while Mr. Fascitelli of Vornado Realty Trust, also a REIT, was paid no cash bonus at all. Similarly, Mr. Gemunder of Omnicare, a departing CEO, received more than \$17 million in perks related to severance while neither of the other two Health Care Provider & Services CEOs in the list received even \$1 million in perks.

Bonuses: Despite serving only about two years as CEO of General Growth Properties (GGP), Adam Metz received cash bonus payments of more than \$46 million in 2010. Named executives at GGP received nearly \$115 million in bonuses based on a 2009 plan designed “to replace historic equity grants that would not customarily be made during the pendency of the Chapter 11 Cases.” In total, 48 employees received bonuses to cover what may have otherwise been awarded if the company was not in bankruptcy.

TRW Automotive Holdings Corp. CEO of eight years John Plant received two separate bonuses in 2010. The compensation committee awarded the maximum discretionary element to Mr. Plant’s cash bonus, with 50 percent of the \$4.5 million award being based on “additional factors.” He also received a \$2.5 million discretionary retention bonus for the year. Ralph Lauren, the eponymous owner of Polo Ralph Lauren Corporation, received the maximum bonus allowed for a second straight year, \$19.5 million. Shareholders are not told what metrics Mr. Lauren’s bonuses are based on, just that it is determined by company performance versus company goals picked by the compensation committee.

“TRW Automotive Holdings Corp. CEO of eight years John Plant received a discretionary and a retention bonus in 2010.”

Equity Profits: McKesson Corporation’s John Hammergren exercised 3.3 million stock options in 2010 for a profit of more than \$112 million, representing nearly 80 percent of the compensation that made him the highest earner of the year. The options vested solely with the passage of time and absent any performance criteria, same as his vested restricted stock which totaled \$6.5 million in profits in 2010. However, McKesson’s stock price did increase more than 117 percent in the 10 years since Mr. Hammergren became CEO.

“McKesson Corporation’s John Hammergren exercised 3.3 million stock options in 2010 for a profit of more than \$112 million.”

At Verisk Analytics, Inc., Frank Coyne exercised more than 2.5 million options for a gain of about \$65 million, a profit of nearly \$26 a share. Vornado Realty Trust's Michael Fascitelli made a combined \$63 million from the exercise of options and vesting of restricted stock, representing 98 percent of his total realized compensation in 2010. Mr. Fascitelli has been President of Vornado Realty Trust since 1996 and CEO since May 2009. Interestingly, Vornado's stock price increased just 5 percent in the 13 years Mr. Fascitelli served as President but from the time he became CEO in May 2009 to when he exercised 1.4 million options in February 2010, the stock price grew 38 percent, allowing him to capitalize on \$50 million in option profits.

Two of the top 10 earners made more than \$50 million in equity profits as part of their exit packages at termination. At Aetna Inc., former CEO Ronald Williams exercised 2.4 million options that were set to expire in March 2011, one month before his April board retirement, and realized a profit of \$50.4 million. The option profits totaled nearly 90 percent of his realized compensation for 2010. From the time Mr. Williams assumed the role of CEO in February 2006 until his retirement in November 2010, Aetna's stock price declined by 39 percent. At CVS Caremark Corporation, Thomas Ryan exercised 2.3 million options at a profit of \$28 million and made more than \$22 million in vested stock profits, all time-vesting equity awards. The combined equity profits accounted for about three-quarters of Mr. Ryan's 2010 realized compensation. During Mr. Ryan's 13-year tenure as CEO, CVS Caremark's stock price decreased almost 54 percent from \$71.70 on May 1, 1998 to \$33.10 on March 1, 2011.

Pension & Deferred Compensation Changes: Corporate pensions represent a fixed form of income for executives because they are not tied to performance. Beyond that, GMI released a report in March 2010 indicating more than one-tenth of the companies in the S&P 500 had actually increased pension values for executives when bonuses had not been earned. Also, corporations have been known to give CEOs additional years of credited service to increase pension payouts. Non-qualified deferred compensation allows an executive to receive a company percentage match on deferred salary and bonus compensation.

At McKesson Corporation, Mr. Hammergren realized a pension increase of almost \$13.5 million in 2010 following an increase of more than \$20 million in 2009. The "Legacy Executive Pension Program" which was frozen to new participants in May 2011 has resulted in the majority of his \$83 million in accumulated pension benefits. Mr. Hammergren currently holds more than \$106 million in pension and non-qualified deferred compensation.

The number two highest-paid CEO of the year, former Omnicare CEO Joel Gemunder, retired in the middle of 2010, but still received almost \$15 million in pension and non-qualified deferred compensation increases for the year. After a nine-year career as CEO of Omnicare, having previously served as President since 1981, Mr. Gemunder retired with 24 years of credited service under the "General Pension Plan," still earning him only \$1,510. However, he was given 46 years of credited service under the "Non-Qualified Pension Plan," under which he earned \$102 million, including almost \$40 million in just the last year. Benefits under the "Non-Qualified Pension Plan" are paid in a lump sum, meaning he was able to walk away with that \$102 million immediately upon retirement.

Another retiring CEO, Thomas Ryan of CVS Caremark, accrued pension and deferred compensation earnings of \$13.7 million in his final year with the company. The total value of his pension after 13 years as CEO was more than \$58 million. Despite serving as an executive officer of CVS only since 1998, he was given 36 years of credited service under the company SERP (Supplemental Employee Retirement Plan). In addition, Mr. Ryan accrued nearly \$73 million in non-qualified deferred compensation, bringing his pension and deferred compensation to a total of \$131 million at retirement.

"Two of the top 10 earners made more than \$50 million in equity profits as part of their exit packages at termination."

"Former Omnicare CEO Joel Gemunder retired in the middle of 2010, but still received almost \$15 million in pension and nonqualified deferred compensation increases for the year."

"Despite serving as an executive officer of CVS only since 1998, Thomas Ryan was given 36 years of credited service under the company SERP."

All Other Compensation: Few, if any, CEOs have earned more in all other compensation in the last few years than Mario J. Gabelli, CEO of GAMCO Investors, Inc. This has more to do with how his compensation is reported than with the receipt of exorbitant perquisites. He earned \$56.6 million in all other compensation in 2010 and has totaled more than \$217 million in all other compensation in the last four years. Mr. Gabelli's pay is not itemized, but displayed as: fees paid for his services as portfolio manager, incentive management fees, and other variable remuneration. He does not collect the typical pay elements of salary, stock, and bonuses received by the other CEOs mentioned in this report.

"Mario Gabelli, CEO of GAMCO, has totaled more than \$217 million in all other compensation in the last four years."

Severance Payments: Listed under "all other compensation," severance payments were responsible for some of the highest perquisite totals in 2010. Typically, there are at least a couple of retiring CEOs in the top 10 highest-paid of the year. Severance payments represent just the cash amounts settled in terms of salary and bonus. In 2010, four of the highest-paid CEOs of the year were either terminated or retiring executives. Omnicare's Joel Gemunder received more than \$16 million in severance payments in 2010, which came in addition to a \$102 million pension and \$26 million in equity profits. At General Growth Properties, departing CEO Adam Metz received almost \$3.4 million in severance payments as part of his exit package, a lump sum including a pro-rata target bonus and full vesting of outstanding stock.

High Withhold Votes and Low Pay Plan Support: Shareholders who stand in opposition to extraordinary compensation insufficiently linked to performance often express these concerns through director voting (specifically, withholding their support for directors who sign off on compensation policy that result in lofty, discretionary payouts). Beginning in 2011, more shareholders could also voice concerns by not supporting company pay packages in advisory votes, often called "Say on Pay."

"Shareholders who stand in opposition to extraordinary compensation insufficiently linked to performance often express these concerns through director voting."

Table 4 displays companies from the top 10 highest-paid CEOs list where shareholder dissatisfaction was most noteworthy when tallying pay plan support and withhold votes.

Table 4: Noteworthy Shareholder Dissatisfaction (Source: GMI)			
Company Name	Advisory Vote Support %	Compensation Committee Member	Withhold Vote
Vornado Realty Trust	54.50%	Michael Lynne, Chairman	50.89%
		Ronald Targan	51.48%
		Richard West	38.26%
Aetna Inc.	71.14%	Besty Cohen, Chairman	14.98%
		Frank Clark	10.74%
		Roger Farah	11.20%
		Barbara Hackman Franklin	13.67%
		Jeffrey Garten	11.18%
McKesson Corporation	69.67%	Alton Kirby III, Chairman	13.94%
		M. Christine Jacobs	13.78%
		David Lawrence	13.70%
		Edward Mueller	13.72%

In Appendix III are three case studies based on these companies where shareholders have displayed notable dissatisfaction with compensation and compensation committee members. Each company had a CEO among the 10 highest-paid in the Russell 3000 in 2010, while at the same time receiving a majority of withhold votes for all compensation committee directors upon their last election as well as less than enthusiastic support from shareholders on most recent pay plans. All three companies have adopted an annual vote on compensation policy after factoring in management recommendations and shareholder votes.

"Each company had a CEO among the 10 highest-paid, while at the same time receiving a majority of withhold votes for all compensation committee directors"

Changing Equity Compensation Practices

The decline in the use of stock options underwent a brief reversal in 2008 when stock prices were at a very low ebb and it was therefore easy for CEOs and other executives to make extremely large profits by exploiting a market recovery. The intrinsic value from those 2008 stock option grants has only been realized by a very few CEOs, but it is a market bombshell waiting to explode and will likely dwarf even this year's relatively substantial increase in "realized" pay. That reversal was itself reversed in 2009, and figures from 2010 show that the number of CEOs receiving stock options continues to decline. At the same time, the numbers receiving some form of full-value stock award continues to increase.

Table 5 in the margin shows that more than 70 percent of CEOs are in receipt of some form of full-value stock award, while only just over half of CEOs received stock options during fiscal 2010. In 2010, a total of 681 CEOs received stock but no stock options, which means that 853 received both types of award. On the other hand, only 281 CEOs received only stock options. In 2009, the number receiving both types of award was relatively the same, at 808, but the numbers receiving only stock was much lower, at 586, and the number receiving only options was much higher, at 383. These figures confirm that the shift away from stock options is fairly dramatic. Table 6 shows a slight median increase in option award value yet a double-digit median increase in stock award value.

Table 5: Changing Equity Compensation Practices 2009-2010 (Source: GMI)

	2009 Option Awards	2009 Stock Awards	2010 Option Awards	2010 Stock Awards
Number	1,191	1,394	1,134	1,533
Percentage	55.86	65.38	53.19	71.9

Table 6: Change in Equity Award Values 2009-2010 (Source: GMI)

	Change in Option Award Value	Change in Stock Award Value
Number	1,191	1,394
	%	%
Average	43.56	2,371.63
Median	2.1	16.21
Minimum	-100	-100
Lower Quartile	-44.05	-18.18
Upper Quartile	50.06	82.19
Maximum	6,336.44	2,688,100.00

Perks in the S&P 500

Table 7: S&P 500 Perquisite Changes 2009-2010 (Source: GMI)

2010	All Other Compensation	Aircraft	Home Security	Memberships	Tax Reimbursements	Other
Number	388	155	51	24	65	386
Maximum	\$5,501,346	\$4,200,000	\$1,600,000	\$30,042	\$2,553,311	\$5,462,625
Upper Quartile	\$324,975	\$71,204	\$0	\$0	\$0	\$226,649
Median	\$146,336	\$0	\$0	\$0	\$0	\$88,668
Average	\$313,248	\$62,653	\$22,244	\$552	\$13,031	\$206,833
Lower Quartile	\$50,175	\$0	\$0	\$0	\$0	\$31,534
Minimum	\$0	\$0	\$0	\$0	\$0	\$0
2009	All Other Compensation	Aircraft	Home Security	Memberships	Tax Reimbursements	Other
Number	388	157	52	29	92	386
Maximum	\$2,937,712	\$1,198,056	\$1,700,000	\$215,954	\$2,384,566	\$2,445,712
Upper Quartile	\$288,049	\$50,652	\$0	\$0	\$0	\$194,169
Median	\$131,708	\$0	\$0	\$0	\$0	\$81,021
Average	\$248,922	\$47,853	\$22,464	\$1,512	\$15,162	\$160,913
Lower Quartile	\$50,637	\$0	\$0	\$0	\$0	\$31,189
Minimum	\$0	\$0	\$0	\$0	\$0	\$0

All Other Compensation (Aircraft, Home Security, Memberships, Tax Reimbursements, Other): Overall median levels of all other compensation have risen over the past year (by 11.1 percent) but not quite rebounding to the 2008 level of \$157,057. The average, however, did exceed the 2008 level of \$312,275 by about \$1,000. The most paid to any one S&P 500 CEO was \$4.6 million at Abercrombie and Fitch, driven by an infamous \$4.2 million aircraft usage expense. (This made headlines at the time for having been a lump sum payment of \$4 million for altering CEO Michael Jeffries' employment contract to cap jet usage levels at \$200,000 annually.) The overall practice of paying perks held steady, being present in 99 percent of the matched sample of 398 S&P 500 companies with CEOs in place for the past two years.

Aircraft: Aside from the aforementioned outlier at Abercrombie, aircraft perk statistics remained unremarkable, seeing 30 to 40 percent increases (roughly \$20,000) at the upper quartile and the average since 2009, yet still within 2008 range. The award of personal jet use remains a nonstandard practice, with 155 companies disclosing this expense, two fewer than last year. The second largest payout of \$942,631 to CEO Steven Wynn of Wynn Resorts did not breach the 2008 level, when his was the largest annual payout.

Home Security: About 13 percent of S&P 500 CEOs received a home security benefit in both years analyzed, with average values just over \$22,000. The maximum payout in both years (\$1.6 and \$1.7 million) was given to Amazon CEO Jeffrey Bezos, with CEO Lawrence Ellison of Oracle having received the second highest perk also in both years: \$1,478,600 and \$1,531,233 in 2009 and 2010, respectively. Lockheed Martin's CEO Robert Stevens was the last of three CEOs that realized over \$1 million in home security benefits, receiving \$1,295,466 in 2010, a huge increase (over 634 percent) from his \$176,351 the prior year, yet with no explanation in the proxy.

Memberships: The number of S&P 500 companies paying membership fees for their CEOs dropped by five this past year, from 7 to 6 percent of the index. Average fee amounts dropped dramatically from \$1,512 to just \$552 in 2010 with the highest payout reaching only \$30,042 in 2010 (for Federated Investors CEO J. Christopher Donahue). The median value of the 24 memberships fees paid in 2010 was \$6,862, down from over \$8,000 for those paid in 2009. One case of values declining is Nabors Industries where \$50,649 was spent on memberships in 2009 but only \$27,801 in 2010, for CEO Eugene Isenberg.

Tax Reimbursements: Tax reimbursements, also known as tax gross-ups, represent the amount a company has paid its CEO to cover personal income tax, whether it be on the value of other perquisites, or reimbursing regional taxes associated with working in different locales. This year, the number of companies paying for this personal income tax expense dropped by almost a third (from 92 to 65) or 16.8 percent of the S&P 500 sample. But the average amount paid to those receiving this perk increased from roughly \$65,000 to almost \$80,000. The highest amount of \$2,553,311 went to the same CEO as the past two years' maxima, Leslie Moonves at CBS Corporation. The rationale for last year's \$2,384,566 was reiterated this year: a "tax neutralization payment" to make Mr. Moonves whole on certain taxes incurred when he "provides services for the Company in the State of New York or New York City" (where the company is headquartered), that would not have been charged had he been working from home in Los Angeles.

Other: This year the maximum paid for "other" perks surpassed any reported in at least the past two years: \$5,462,625 (up from last year's \$2,445,712 and \$4,598,115 in 2008). Two CEOs passed the \$5 million mark this year: Gregg Steinhafel at Target Corporation and Jerald Fishman at Analog Devices, Inc. A total of five CEOs received payments over \$2 million this year and another five netted more than \$1 million. This compares to two and six, and six and five CEOs having been over those \$2 and \$1 million thresholds in 2009

Top 5 Highest Base Salaries of 2010		
Company Name	CEO Name	Base Salary
News Corporation	Keith Rupert Murdoch	\$8,100,000
Discover Financial Services	David W. Nelms	\$4,550,000
CBS Corporation	Leslie Moonves	\$3,513,462
Associated Banc-Corp	Philip B. Flynn	\$3,456,000
General Electric Company	Jeffrey R. Immelt	\$3,300,000

Top 5 Highest Bonuses of 2010		
Company Name	CEO Name	Bonus/NEIC
General Growth Properties, Inc.	Adam Metz	\$46,258,678
Jeffries Group, Inc.	Richard B. Handler	\$38,999,995
Occidental Petroleum Corporation	Ray R. Irani	\$31,575,000
CBS Corporation	Leslie Moonves	\$27,500,000
Annaly Capital Management, Inc.	Michael A.J. Farrell	\$20,909,832

Top 5 Perquisite (or All Other Compensation) Totals of 2010		
Company Name	CEO Name	All Other Compensation
GAMCO Investors, Inc.	Mario J. Gabelli	\$56,608,736
Omnicare, Inc.	Joel F. Gemunder	\$17,148,485
Hewlett-Packard Company	Mark V. Hurd	\$12,857,376
Office Depot, Inc.	Steve Odland	\$11,261,929
TransDigm Group Inc.	W. Nicholas Howley	\$9,781,910

and 2008, respectively. Nearly all companies in the sample paid some form of “other” perquisite again this year. Payments were most often company contributions to deferred compensation plans, make-whole payments of forfeited equity from a past employer, or relocation expenses and the like. The median payout increased from \$81,021 in 2009 to \$88,668.

Conclusion

The decline in the economy in 2008 and 2009 outstripped the decline in CEO pay. In 2008, for example, the Russell 3000 was down by 37.3 percent; total realized pay for CEOs fell by 6.34 percent. In 2010, when stock prices had begun to recover, the increase in CEO pay has outstripped the rise in share value. The Russell 3000 was up by 16.93 percent, but CEO pay went up by 27.19 percent. This differential, which always seems in favor of CEO pay, should give shareholders – whose investments are not subject to the same economic cushion – pause for thought. It is the very largest companies in the sample, those typically under the most scrutiny, that have experienced the biggest increases. S&P 500 CEOs’ total realized compensation increased by a median of 36.47 percent, and CEOs in Midcap companies saw a median rise of more than 40 percent.

Every area of pay has risen, according to our analysis. Base salary rises have not contributed much to the overall increase, but substantial increases in the number and value of cash bonuses have. In fact, even the cost of perks – an area which anecdotally was supposed to be in decline – has increased. More surprisingly, the advent of Say on Pay – a fact clearly known to corporations at the time stock awards were being made and cash bonuses determined – did not seem to have deterred this pay recovery. Nor do such increases appear to have driven an inordinate amount of shareholder protest, with support for most Say on Pay votes in the 90 percent plus range. It remains to be seen whether 2011 – a year of much more mixed fortunes, with the Russell 3000 down almost 10 percent so far – will bring a proxy season of greater unrest and/or a reversal of this pay recovery.

Top 5 Stock Option Profits of 2010		
Company Name	CEO Name	Stock Option Profits
McKesson Corporation	John H. Hammergren	\$112,121,910
Verisk Analytics, Inc.	Frank Coyne	\$64,881,894
Aetna Inc.	Ronald A. Williams	\$50,383,680
Vornado Realty Trust	Michael D. Fascitelli	\$49,797,589
Coach, Inc.	Lew Frankfort	\$44,827,240

Top 5 Pension and Deferred Compensation of 2010		
Company Name	CEO Name	Pension/ NQDC
Omnicare, Inc.	Joel F. Gemunder	\$14,589,093
McKesson Corporation	John H. Hammergren	\$14,072,640
CVS Caremark Corporation	Thomas M. Ryan	\$13,760,025
Community Health Systems, Inc.	Wayne T. Smith	\$8,185,365
Mylan Inc.	Robert J. Coury	\$7,960,701

Top 5 Equity Grants of 2010		
Company Name	CEO Name	Equity Grant Date Value
Viacom Inc.	Phillippe P. Dauman	\$70,453,309
Oracle Corporation	Lawrence J. Ellison	\$61,946,500
Jarden Corporation	Martin E. Franklin	\$39,065,600
Jeffries Group, Inc.	Richard B. Handler	\$38,999,994
Discovery Communications, Inc.	David M. Zaslav	\$35,746,628

Appendix I: Complete Compensation Figures for the 10 Highest-Paid CEOs of 2010

Company Name	CEO Name	Base Salary	Bonus	Nonequity Incentive Compensation	All Other Compensation	Total Annual Compensation	Option Value Realized	Value Realized on Vesting	Pension/ NQDC	Total Realized Compensation	Industry
McKesson Corporation	John H. Hammergren	\$1,664,615	\$0	\$9,860,400	\$995,159	\$12,520,174	\$112,121,910	\$6,552,247	\$14,072,640	\$145,266,971	Health Care Providers & Services
Omnicare, Inc.	Joel F. Gemunder	\$1,052,917	\$0	\$0	\$17,148,485	\$18,201,402	\$3,323,260	\$22,587,286	\$14,589,093	\$98,283,242	Health Care Providers & Services
TRW Automotive Holdings Corp.	John C. Plant	\$1,869,231	\$2,500,000	\$4,537,500	\$393,605	\$9,300,336	\$27,941,862	\$3,848,685	\$6,990,932	\$76,841,646	Auto Components
Verisk Analytics, Inc.	Frank Coyne	\$1,000,000	\$0	\$3,000,000	\$67,945	\$4,067,945	\$64,881,894	\$0	\$466,887	\$69,416,726	Professional Services
CVS Caremark Corporation	Thomas M. Ryan	\$1,475,000	\$0	\$2,200,000	\$281,481	\$3,956,481	\$28,243,853	\$22,119,464	\$13,760,025	\$68,079,823	Food & Staples Retailing
General Growth Properties, Inc.	Adam Metz	\$1,459,615	\$0	\$46,258,678	\$3,584,997	\$51,303,290	\$13,424,420	\$1,979,750	\$0	\$66,707,460	Real Estate Investment Trusts (REITs)
Polo Ralph Lauren Corporation	Ralph Lauren	\$1,250,000	\$0	\$19,500,000	\$331,925	\$21,081,925	\$37,141,481	\$8,428,109	\$0	\$66,651,515	Textiles, Apparel & Luxury Goods
Vornado Realty Trust	Michael D. Fascitelli	\$1,000,000	\$5,700	\$0	\$277,570	\$1,283,270	\$49,797,589	\$13,321,609	\$0	\$64,402,468	Real Estate Investment Trusts (REITs)
Aetna Inc.	Ronald A. Williams	\$1,095,785	\$0	\$2,752,200	\$299,838	\$4,147,823	\$50,383,680	\$973,160	\$2,283,123	\$57,787,786	Health Care Providers & Services
GAMCO Investors, Inc.	Mario J. Gabelli	\$0	\$0	\$0	\$56,608,736	\$56,608,736	\$0	\$0	\$0	\$56,608,736	Capital Markets

Appendix II: Index Median Values 2009-2010 (Source: GMI)

2009 Median Figures				
Index	Number	Base Salary	Total Annual Compensation	Total Realized Compensation
S&P Smallcaps	484	\$550,000	\$955,214	\$1,416,724
S&P Midcaps	320	\$750,000	\$1,610,382	\$2,935,714
S&P 500	398	\$1,000,000	\$2,851,086	\$6,127,671
Russell 2000	1312	\$519,231	\$889,036	\$1,269,796
Russell 1000	754	\$900,000	\$2,210,622	\$4,449,486
2010 Median Figures				
Index	Number	Base Salary	Total Annual Compensation	Total Realized Compensation
S&P Smallcaps	483	\$575,000	\$1,173,811	\$2,048,774
S&P Midcaps	320	\$786,134	\$1,949,689	\$4,200,609
S&P 500	398	\$1,029,423	\$3,435,638	\$8,932,713
Russell 2000	1389	\$544,231	\$1,027,292	\$1,655,743
Russell 1000	743	\$950,000	\$2,811,610	\$6,865,215

Appendix III: Case Studies

Case Study 1: Vornado Realty Trust

Shareholders at Vornado Realty Trust are clearly not content with the board, as exhibited by high withhold votes for every board member up for election. Two-thirds of the compensation committee was basically voted off the board with majority withhold votes while all 10 directors received between 28 and 48 percent withhold votes at their most recent election. The Vornado board is long-tenured and steeped in intra-board relationships and has apparently lost the confidence of its diverse shareholder group.

The policies instituted by the board have produced a number compensation concerns. At the forefront of these issues are discretionary equity grants, which resulted in \$63 million in profits in a single year for CEO Michael Fascitelli, 98 percent of his 2010 realized compensation. Below are excerpts from Vornado's 2011 proxy statement:

- *"...in granting compensation we and our Compensation Committee rely upon our judgment about each individual—and not on rigid formulas or short-term changes in business performance..."*
- *"For long-term performance, our option, restricted share and other equity awards generally vest over three to five years and are only valuable (in the case of awards such as options) or only increase in value (in the case of awards such as restricted shares) if our Share price increases over time."*

Essentially, equity grants at Vornado are time-vesting and granted in large quantities. Mr. Fascitelli received regular mega-grants of time-vesting stock and option awards during his time as President and received 300,000 stock options and 74,573 restricted shares in 2009, his first year as CEO. In 2010 he received similar equity grants, worth about \$8.7 million. The cycle continues as these grants will begin to vest next year, as long as Mr. Fascitelli remains employed with the company.

About one week before the annual meeting, Vornado released amended proxy materials to explain compensation practices before the vote. In their defense of pay-for-performance practices, the company explains:

"...our executive compensation program does not mandate specific performance metrics that result in formula-driven payouts."

Instead of applying performance metrics to bonuses or equity grants, shareholders are told that, in hindsight, pay is commensurate with performance because of Vornado's overall total shareholder return numbers. In fact, the discretionary nature and abundance of equity awards result in multi-million dollar payouts for small movements in stock price. For instance, Vornado's year-end stock price in 2005 was basically the same as in 2010, roughly \$84. However, Mr. Fascitelli was granted options in 2009, when the stock dropped to \$33.82. That meant Mr. Fascitelli was able to potentially profit more than \$50 an option just for a market rebound. He was granted the aforementioned 300,000 options at \$33.82 in 2009, resulting in a potential profit of \$15 million.

Case Study 2: Aetna Inc.

On the day Aetna released its annual proxy in April 2011, it also released additional materials not part of the full proxy statement. In the amended materials, Aetna attempted to warn shareholders about possible media scrutiny of executive compensation as well as to defend its compensation practices:

“Given the public and political focus on administrative costs of health insurers, we anticipate some media attention on executive compensation.”

Aetna then defended pay practices with the following:

- ***“Executive compensation is tied to financial performance.*** A significant portion of executive pay varies each year. Aetna had a successful 2010 based on a number of internal and external metrics, including strong operating earnings and underwriting margin. As a result, the annual bonus plan was funded at 166.8 percent of target. Executive compensation for 2010 reflected our strong performance last year. Aetna’s overall bonus payout to all employees for 2010 exceeded \$250 million.
- ***“Executives are required to own a certain amount of Aetna stock.*** Requiring leaders to invest in the company they lead aligns the interests of our executives with our shareholders.
- ***“Aetna’s executive compensation philosophy reinforces the importance of delivering value to our shareholders.*** Aetna believes that a significant portion of executive compensation should be variable and based on meeting defined performance goals and/or stock price change. For this reason, not all of an executive’s pay is predictable. In addition to a base salary, executives receive stock-based compensation. The value of this stock-based compensation typically depends on Aetna’s stock price and whether Aetna achieves financial goals set at the time of grant. Some forms of stock-based compensation (options and SARs) have expiration dates. The expiration date means these grants must be exercised (sold or purchased and held) within a specific period (usually 10 years) or they are forfeited. Some grants expire with no value. In other words, executive compensation has some elements of certainty (base salary) and other elements that represent potential, but not guaranteed, value.”

Our analysis suggests the following:

- Operating performance was indeed a success in 2010. EPS was up 34 percent, according to the proxy, and the performance targets designed for the cash bonus were largely met, warranting bonus payments.
- Ownership guidelines are laudable, but a boilerplate sentence about the value of guidelines should not be given as evidence of paying for performance.
- Aetna’s executive compensation policy falls well short of delivering value to shareholders. For example, former CEO Ronald Williams exercised 2.4 million options in his fifth and final year as CEO for a profit of more than \$50 million, representing about 90 percent of his realized compensation landing him in the top 10 of companies surveyed. However, the options he exercised in 2010 were time-vesting and granted almost a decade earlier when he was first hired as an executive vice president. The options had strike prices of between \$9.35 and \$12.16. During his more than four-year run as CEO, from February 2006 to November 2010, Aetna’s stock price actually declined 39 percent from \$49.71 to \$30.16. Indeed, the bulk of Mr. Williams’ 2010 realized compensation seems more pay for pulse than for performance.

Case Study 3: McKesson Corporation

McKesson Corporation filed amended proxy materials in anticipation of its 2011 annual meeting. In the filing, the company defended itself against a proxy advisor recommending against McKesson's 2011 compensation plan. In its defense, McKesson pointed to outperformance against the S&P 500 in terms of EPS growth over the last 10 years. Total revenues at McKesson rose steadily even through the financial crisis, growing incrementally from \$93 billion in 2007 to \$112.1 billion in 2011.

The second portion of the filing concerned changes implemented to the executive compensation program. Changes included eliminating General Electric and Oracle from its compensation peer group – whose presence inflated peer compensation costs – as well as reducing the maximum cash bonus payment opportunity from 300 percent to 200 percent of target. While noteworthy, these changes show how far compensation policy at McKesson still has to evolve. The elimination of inappropriate peers from peer groups and reduction of extraordinary bonus targets does nothing to change the discretionary nature of many McKesson compensation awards including:

- 2010 Stock Option Profits: \$112 million

Mr. Hammergren exercised more than 3.3 million stock options in 2010 alone. He has received between \$10 million and \$19 million annually for the past several years in primarily market-priced stock options and time-vesting restricted stock as CEO of McKesson Corp.

- 2010 Pension Growth: \$ 13.5 million

Retirement benefits are not tied to performance. The \$13.5 million increase in Mr. Hammergren's pension brought the present value of his benefits to more than \$83 million. Pension payments are made up primarily of company contributions, though McKesson was unspecific about the payments in its proxy.

- 2011 Base Salary: \$1.7 million

At \$1.7 million, Mr. Hammergren's salary is in the top 10 percent of the S&P 500 and the top 5 percent of the Russell 3000. Given his level of compensation, the highest in our universe for 2010, it's unclear why he would need such an extraordinary salary. Especially when base salary is in no way tied to company performance.

- 2011 All Other Compensation: \$995,159

Despite being the highest paid CEO in the Russell 3000 in 2010, Mr. Hammergren also received sizeable perquisites from the compensation committee. These include home security costs; the CEO was reimbursed \$122,177 for home security and monitoring services. Mr. Hammergren received similar contributions for company aircraft use and was reimbursed car and driver fees. The bulk of perquisites came in the form of company matching contributions and dividends on RSUs, totaling \$729,119, which went into his non-qualified plan. Company matches of this magnitude are difficult to justify in terms of shareholder value.

Finally, in the event of a change in control, Mr. Hammergren would be due \$469 million. Amounts payable upon a change in control include \$141 million in severance, executive pension of \$124 million, \$90 million in accelerated equity vesting and a tax gross-up of more than \$78 million, in addition to other compensation.



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