



Contact:

Andrew Healy
Water & Wall Group
212-625-2363
ahealy@waterandwallgroup.com

CEO PAY UP +7% FOR EARLY FILERS

Realized vs. Realizable Pay Enters Pay Debate

NEW YORK, April 4, 2014 – CEO total compensation among 100 early proxy filers grew +7% in 2013 to a median \$6.7 million. Generally strong corporate performance, with median net income up +8%, closely tracked the increase in compensation. The findings are based on a study by executive compensation consultants Steven Hall & Partners of 100 companies with revenues greater than \$1 billion.

Median base salary was \$988,000, up +3%. Bonus payouts, a barometer of annual performance, increased +4% to a median \$1.4 million. Long-term incentive awards increased +5% to a median \$3.9 million.*

Year over year changes in long-term incentive values, which include stock options, restricted stock, performance shares, and long-term cash incentive payouts, were not directly correlated with annual changes in profitability or shareholder return. Long-term incentive increases were observed at companies with both increased and decreased profits, as well as companies with positive and negative total shareholder return (TSR).

“This isn’t surprising or inappropriate,” commented Nora McCord, a Managing Director of Steven Hall & Partners. “Long-term pay is designed to incentivize future performance. Over time, if company performance improves, these awards will increase in value. Alternatively, if performance is stagnant or declines, rewards can drop below their targeted values or plummet to zero.”

* Medians are not additive.

Realized and Realizable Pay

According to Steven Hall & Partners, disclosing realized or realizable pay over the performance period is emerging as a means to provide shareholders with a clear picture of how pay and performance are linked. Current proxy regulations do not yet require realized and realizable disclosure, though 26% of the companies in the study (compared to 24% last year) included such a discussion.

In general, *realized* pay represents amounts actually received while *realizable* pay represents a mix of amounts actually received as well as outstanding long-term incentive awards.

“There is no consensus among those in the corporate governance community about how realized or realizable disclosure should look, so many companies are not ready to add this information to their proxy,” noted Ms. McCord. “We expect greater adoption as companies become more familiar with the concept and Dodd-Frank legislation mandating this disclosure is implemented.” Among Fortune 100 companies, Steven Hall & Partners expects to see a much larger percentage making this disclosure this year.

Financial Performance

Among the 100 companies in the study, at median

- Revenues were up +5% over 2012
- Net income was up +8%
- Total shareholder return (TSR) was up +32%

Trends in Pay Mix

Average CEO pay mix was unchanged in 2013 from 2012. As a percentage of total pay,

- Salary represents 18%
- Annual incentives represent 24%
- Long-term incentives represent 58%

Recap of Pay Elements

Among the 100 CEOs in the study group, median

- Salaries increased +3% to \$988,000
- Bonuses increased +4% to \$1.4 million
- Long-term incentives (equity awards and long-term cash incentive payouts) increased by +5% to \$3.9 million
- Total compensation increased +7% to \$6.7 million

More on Realized and Realizable Pay

Definitions for both realized and realizable pay are not standardized and are often dependent on their context. Realized pay includes salary, incentive payouts (both short- and long-term) and the value of equity awards upon vesting or exercise of options.

(There is no consensus on whether to value options on the date of vesting or the date of exercise.) Realizable pay represents a mix of both amounts actually received, including salary and incentive payouts, as well as outstanding long-term incentive awards.

About the Study

The study analyzed compensation data for the most recent two years as disclosed in 100 definitive proxy statements filed in 2014 for companies with revenues greater than \$1 billion and CEOs with a minimum tenure of two years. For additional details regarding the study please contact Andrew Healy at 212-625-2363 or ahealy@waterandwallgroup.com.

About Steven Hall & Partners

Steven Hall & Partners is an independent executive compensation consulting firm serving as outside counsel to boards, compensation committees and management. The firm focuses solely on executive compensation, director remuneration and related corporate governance matters.

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