

Data Overview

2010 had marked an end to two straight years of CEO pay decline in the Russell 3000. For each of compensation years 2008 and 2009, total realized pay at the median was lower than the year before. However, as the worst of the financial crisis passed and markets began to rebound, total realized compensation climbed more than 28 percent at the median from compensation year 2009 to 2010. Table 1 below shows median total realized pay has increased 15 percent at the median from compensation year 2010 to 2011, again marking a double-digit surge.

Table 1: All CEO Compensation Changes 2010/2011 (Source: GMI Ratings)			
	Change in base salary	Change in total annual compensation	Change in total realized compensation
Number	817	817	817
	%	%	%
Maximum	699.99%	807.62%	2319.00%
Upper Quartile	7.46%	22.77%	53.16%
Average	6.17%	10.07%	44.46%
Median	3.19%	3.16%	15.12%
Lower Quartile	0.00%	-12.38%	-11.46%
Minimum	-100.00%	-92.27%	-91.31%

Based on a comparison of CEOs at 817 Russell 3000 companies with proxies evaluated by our analysts as of April 3, 2012, preliminary pay figures for compensation year 2011 show a total annual compensation climb of more than 3 percent at the median and just over 10 percent on average. Total annual compensation continues to represent annual forms of pay including base salary, bonus, and perquisites. Total realized compensation, which includes all elements of annual compensation in addition to equity profits and increases in deferred compensation, is up more than 15 percent at the median with an average total realized compensation increase of more than 44 percent.

Key Findings:

- Second consecutive year of double-digit total realized compensation increases at the median and average for the Russell 3000.
- Total realized compensation in the Russell 3000 saw a median increase of about 15 percent.
- Annual compensation climbed just over 10 percent at the average for the Russell 3000.
- Annual compensation increases for S&P Midcaps and S&P Smallcaps are outpacing the S&P 500. Similarly, annual increases in the Russell 2000 index are outpacing the Russell 1000.
- Average 2011 total realized compensation for the Russell 3000 is \$5.8 million.
- Average 2011 total realized compensation in the S&P 500 is \$12.1 million.
- Total realized compensation gains for S&P Smallcaps and S&P Midcaps are more than 20 percent higher than the average at S&P 500 companies.

S&P Index

When GMI Ratings released its preliminary pay survey in 2011 (on compensation paid in 2010), we noted that annual increases were most pronounced at the largest companies in the S&P index. Thus far in 2012, a different trend is emerging: the largest increases in annual pay both at the median and average are occurring at midcap companies. Interestingly, smallcap companies are also outpacing the S&P 500 in annual compensation increases at both the median and average. Increases in total realized compensation are following a similar pattern.

Table 2: S&P Compensation Changes 2010/2011 (Source: GMI Ratings)

		Change in base salary	Change in total annual compensation	Change in total realized compensation
S&P 500	Number	177	177	177
	Average	1.47%	8.51%	31.45%
	Median	2.57%	1.41%	13.78%
S&P Midcaps	Number	134	134	134
	Average	6.06%	14.64%	55.15%
	Median	3.47%	3.38%	14.66%
S&P Smallcaps	Number	178	178	178
	Average	4.73%	11.27%	52.10%
	Median	3.51%	1.59%	23.79%

The largest annual increase to date this year is at S&P Smallcap Contango Oil & Gas Company. Thirteen-year CEO Kenneth Peak, the only participant in Contango's annual incentive plan, received a cash bonus of \$6 million based on the satisfaction of three out of four financial metric targets. The largest gains in realized compensation so far this year are for A. Lanham Napier, CEO of S&P Midcap internet company Rackspace Hosting, Inc. The six-year CEO exercised 455,000 stock options at a profit of more than \$16 million. The options were granted at an exercise price of \$2.50 in December 2005, before the company began trading on the NYSE (in August 2008) at \$10 per share. The stock price when Mr. Napier exercised these options in February 2011 was about \$39.

On average, smallcap and midcap companies saw total realized gains of 52 percent and 55 percent, respectively, since 2010. These increases are more than 20 percent higher than at S&P 500 companies (with 31 percent). At the median, smallcap companies saw realized compensation increases of almost 24 percent, significantly more than at midcap companies (15 percent) and S&P 500 companies (14 percent).

An example of a smallcap CEO seeing large gains is Joseph Y. Liu of Oplink Communications, Inc., a smallcap technology hardware company. Mr. Liu exercised stock options for the first time in several years for a profit of \$3.4 million in 2011. Last year, his realized compensation was just \$386,052, consisting of a salary of \$376,139 and perks of less than \$10,000. During 2011, the options Mr. Liu exercised were a portion of a November 2002 grant with a strike price of \$5.46; a June 2006 mega-grant of 700,000 stock options (with a strike price of \$20.25) remains underwater.

Table 3 below shows pay changes in the S&P from compensation year 2010 to compensation year 2011. Figures are based on a matched sample of CEOs serving for the whole of the last two years.

Table 3: S&P Compensation Figures 2010/2011 (Source: GMI Ratings)

2010				2011			
S&P 500	Base Salary	Total Annual Compensation	Total Realized Compensation	S&P 500	Base Salary	Total Annual Compensation	Total Realized Compensation
Number	177	177	177	Number	177	177	177
Average	\$1,171,770	\$3,998,650	\$10,830,291	Average	\$1,150,157	\$4,351,724	\$12,120,678
Median	\$1,000,000	\$3,339,786	\$7,734,478	Median	\$1,018,333	\$3,309,669	\$8,797,473
S&P Midcaps	Base Salary	Total Annual Compensation	Total Realized Compensation	S&P Midcaps	Base Salary	Total Annual Compensation	Total Realized Compensation
Number	134	134	134	Number	134	134	134
Average	\$813,927	\$2,144,530	\$5,432,161	Average	\$851,371	\$2,351,573	\$6,348,655
Median	\$800,000	\$1,940,444	\$4,140,469	Median	\$837,500	\$1,996,640	\$4,742,949
S&P Smallcaps	Base Salary	Total Annual Compensation	Total Realized Compensation	S&P Smallcaps	Base Salary	Total Annual Compensation	Total Realized Compensation
Number	178	178	178	Number	178	178	178
Average	\$643,983	\$1,514,881	\$2,771,561	Average	\$672,970	\$1,565,850	\$3,548,829
Median	\$627,379	\$1,245,218	\$2,114,526	Median	\$667,602	\$1,293,489	\$2,577,756

On average, CEOs in the S&P 500 are earning \$12.1 million for compensation year 2011; about 12 percent more than the average figure for this same group last year. The average total realized compensation figure of \$6.4 million for S&P Midcap CEOs is about 17 percent higher than the median figure for last year. However, with average total realized compensation of \$3.5 million, S&P Smallcap CEOs have seen their average compensation total grow by 28 percent from 2010 to 2011.

Russell Index

A similar story unfolds when examining the Russell indices. While median annual compensation for the Russell 2000 increased nearly 5 percent in 2011, the Russell 1000 increased less than 2 percent. The numbers are closer at the average, with the Russell 2000 increasing by nearly 11 percent compared to around 9 percent in the Russell 1000. Total realized compensation analysis shows the Russell 2000 slightly outpacing the Russell 1000 with gains of 15 percent compared to 14 percent, respectively, although realized compensation is still higher on average in the Russell 1000.

Table 4 displays changes in base salary, total annual compensation, and total realized compensation from 2010 to 2011 for the Russell 3000.

Table 4: Russell Compensation Changes 2010/2011 (Source: GMI Ratings)				
		Change in base salary	Change in total annual compensation	Change in total realized compensation
Russell 1000	Number	326	326	326
		%	%	%
	Average	3.73%	9.34%	47.83%
	Median	2.91%	1.84%	14.28%
Russell 2000	Number	491	491	491
		%	%	%
	Average	7.78%	10.56%	42.22%
	Median	3.55%	4.89%	15.29%

Base salary increases are also more pronounced for the smaller companies of the Russell 2000. While median salary increases in the Russell 2000 are about one percentage point higher than in the Russell 1000, the average salary increase in the Russell 2000 is more than 4 percentage points higher than the average Russell 1000 increase. Of companies in this survey, CEOs at three Russell 2000 companies – The First Marblehead Corporation, Vail Resorts, Inc. and Luby's, Inc. – each received salary raises in excess of 100 percent. CEOs at an additional five Russell 2000 companies – Excel Trust, Inc., Marine Products Corporation, National American University Holdings, Inc., Shiloh Industries, Inc. and Patriot Transportation Holding, Inc. – each received salary increases of more than 50 percent. Large salary gains at these companies can account for some of the average increase in the Russell 2000 sample.

Table 5 below shows pay changes in the S&P from compensation year 2010 to compensation year 2011. Figures are based on a matched sample of CEOs serving for the whole of the last two years.

Table 5: Russell Index compensation figures 2010/2011 (Source: GMI Ratings)							
2010				2011			
Russell 1000				Russell 1000			
	Base Salary	Total Annual Compensation	Total Realized Compensation		Base Salary	Total Annual Compensation	Total Realized Compensation
Number	326	326	326	Number	326	326	326
Average	\$1,018,387	\$3,369,541	\$8,787,757	Average	\$1,026,760	\$3,518,545	\$10,325,468
Median	\$936,750	\$2,843,113	\$6,566,090	Median	\$979,920	\$2,816,738	\$7,398,861
Russell 2000				Russell 2000			
	Base Salary	Total Annual Compensation	Total Realized Compensation		Base Salary	Total Annual Compensation	Total Realized Compensation
Number	491	491	491	Number	491	491	491
Average	\$580,949	\$1,301,921	\$2,258,813	Average	\$609,804	\$1,315,509	\$2,744,618
Median	\$540,000	\$1,008,922	\$1,473,972	Median	\$560,168	\$1,044,530	\$1,845,459

Highest-Paid CEOs

There is not one dominant industry among the 10 highest-paid CEOs in terms of total realized compensation, though one industry appears multiple times in the list. Three CEOs from companies in the software industry— IBM Corporation, TIBCO Software, and Nuance Communications, Inc. – represented the second, fifth, and tenth positions on the top 10 list. All three CEOs received the majority of realized compensation through stock option exercises and vested stock. Overall, CEOs in the top 10 earned about 77 percent of realized compensation through option exercises and vested equity. Exceptions to this general rule include Marathon Oil and Honeywell where CEOs received bonuses of \$21.8 and \$23.3 million, respectively. Clarence Cazalot of Marathon Oil received 55 percent of his compensation in non-equity pay elements while 48 percent of Honeywell’s David Cote’s compensation was independent of equity grants. Also, Robert Iger of The Walt Disney Company received a bonus of \$15.5 million in addition to a \$2 million base salary and almost \$1 million in perks. Just less than 50 percent of Mr. Iger’s compensation for 2011 was in the form of cash and increases in retirement benefits.

Table 6 gives the details of the top 10 highest paid CEOs covered by the survey.

CompanyName	CEO	Base salary	Non-equity incentive compensation and bonus	All other compensation	Total annual compensation	Option value realized	Value realized on vesting of stock	Increase in pension value and NQDC	Total realized compensation
Herbalife Ltd.	Michael O. Johnson	\$1,230,000	\$3,690,000	\$100,543	\$5,020,543	\$76,873,318	\$7,525,613	\$0	\$89,419,474
International Business Machines Corporation	Samuel J. Palmisano	\$1,800,000	\$6,500,000	\$1,614,300	\$9,914,300	\$25,019,580	\$20,776,201	\$7,577,053	\$63,287,134
Tyco International Ltd.	Edward D. Breen	\$1,625,000	\$2,925,000	\$2,238,610	\$6,788,610	\$48,075,674	\$4,388,305	\$3,880,000	\$63,132,589
Honeywell International Inc.	David M. Cote	\$1,800,000	\$23,300,000	\$428,499	\$25,528,499	\$22,939,136	\$7,327,278	\$2,464,474	\$58,259,387
TIBCO Software Inc.	Vivek Y. Ranadive	\$553,366	\$821,833	\$19,943	\$1,395,142	\$41,415,174	\$4,729,253	\$0	\$47,539,569
Marathon Oil Corporation	Clarence P. Cazalot	\$1,400,000	\$21,821,400	\$276,207	\$23,497,607	\$20,216,768	\$0	\$1,617,757	\$45,332,132
Avago Technologies Limited	Hock E. Tan	\$700,000	\$1,626,380	\$29,058	\$2,355,438	\$42,939,181	\$0	\$0	\$45,294,619
Walt Disney Company (The)	Robert A. Iger	\$2,000,000	\$15,500,000	\$962,932	\$18,462,932	\$8,194,372	\$13,169,176	\$2,071,385	\$41,897,865
Starbucks Corporation	Howard Schultz	\$1,382,692	\$2,982,000	\$235,294	\$4,599,986	\$36,865,743	\$0	\$0	\$41,465,729
Nuance Communications, Inc.	Paul A. Ricci	\$751,923	\$750,000	\$54,636	\$1,556,559	\$23,006,926	\$16,351,993	\$0	\$40,915,478

The highest-paid CEO in our preliminary survey is Michael Johnson of Herbalife Ltd. with total realized compensation of more than \$89 million. Mr. Johnson exercised more than 1.8 million stock options in 2011 for a profit of almost \$77 million. Many of these options were awarded during 2003-2005 when Herbalife’s shares traded below ten dollars. However, total shareholder return at Herbalife is up nearly 292 percent over the last five years and 870 percent over the past three-year period. Mr. Johnson’s vested stock realized a profit of more than \$7.5 million, combining with the option exercises for a total of more than \$84 million in equity profits for 2011. He is the beneficial owner of 3.6% of Herbalife stock as of February 2012 and was granted additional equity in May and August of 2011 valued at nearly \$20 million in total.

The CEOs of IBM and Tyco International Ltd. (ranked 2nd and 3rd in the list) each received total realized compensation of about \$63 million, including large base salaries, bonuses, and an abundance of equity profits. Five-year shareholder return is up 142 percent at IBM and three-year return is up 127 percent. Mr. Palmisano, who retired as CEO of IBM at the end of 2011 but remains as chairman, exercised 300,000 time-vesting stock options in 2011 for \$25 million and made more than \$20 million on the vesting of a mix of performance and time-vesting restricted stock. At Tyco, five-year shareholder returns are up just 29 percent, compared to three-year returns which are up about 210 percent. Ten-year Tyco CEO Edward Breen profited more than \$48 million on the exercise of 1,675,943 soon-to-expire time-vesting stock options.

Conclusion

Our 2012 preliminary pay survey marks the second straight year of double-digit pay increases in terms of realized compensation. Indeed, the median change in realized compensation from 2009 to 2010 was an increase of 28 percent and the increase from 2010 to 2011 is an additional 15 percent so far. Last year saw an almost 18 percent increase in annual compensation compared to just over 3 percent this year. This indicates that gains made from large stock options and restricted stock are fueling CEO pay as company stock prices rebound.

Indeed, much of the equity granted in 2008 and 2009, when companies had depressed stock prices, is vesting this year and will continue to vest over the next several years. Many companies granted more equity when stock prices were down in order to meet a target compensation figure, setting the stage for higher profits in 2010, 2011, and beyond. In our full survey to be released in the fall, we will examine whether smaller companies continued to outpace larger corporations in realized compensation gains. In addition, the full survey will examine compensation changes by industry and gender as well as provide an updated list of the ten highest-paid CEOs of the year after a majority of companies have completed their reporting.

Methodology

Source Data

GMI Ratings analyzed compensation at North American companies for fiscal 2011 drawing from 1,144 proxy statements filed between July 2011 and the start of April 2012. The analysis was limited to CEOs who had served a full 12-month term. To examine changes in CEO compensation from fiscal 2010 to 2011, we studied a subsample of this data set made up of compensation figures for 817 CEOs who had been in their positions for the whole of the two most recent fiscal years. the increase from 2010 to 2011 is an additional 15 percent so far. Last year saw an almost 18 percent increase in annual compensation compared to just over 3 percent this year. This indicates that gains made from large stock options and restricted stock are fueling CEO pay as company stock prices rebound.

Definitions of Compensation

GMI Ratings primarily uses two measures of compensation: total annual compensation (which excludes equity compensation) and total realized compensation (which includes equity, but measures it by actual market values at the time of vesting or exercises, rather than by accounting estimates).

Total annual compensation includes:

- Base salary
- Bonus
- Non-equity incentive compensation
- All other compensation (perquisites and benefits)

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, and
- Any payments from a vested retirement benefit plan

Because we handle equity compensation this way, our total realized compensation represents compensation that has actually been received by the CEO, rather than any notional estimates, accounting costs, or other uncertainties. For this reason, GMI Rating's figures will differ from those of many other commentators and pay survey producers. While other figures have value for certain purposes, GMI Ratings continues to be more interested in outcomes rather than inputs – real compensation rather than estimated compensation.

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