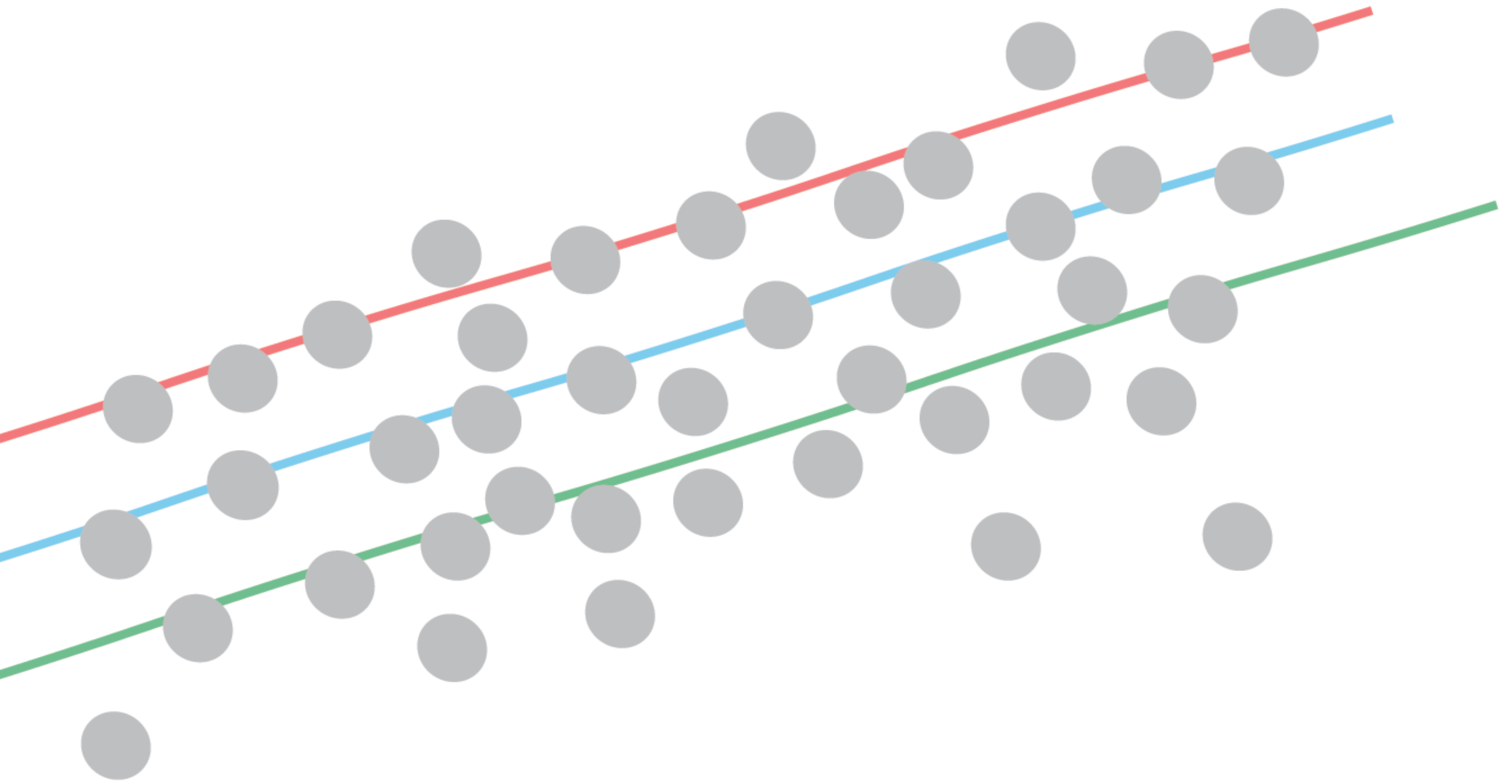
Executive Compensation Index



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March 2015

About the Index

ERI's Executive Compensation Index is a quarterly report that measures trends in executive compensation using analysis of the companies included in the Russell 3000 index. The Russell 3000 is comprised of 3000 publicly traded U.S. firms that collectively represent roughly 98% of the investable equity market in the United States. The March 2015 edition of the ERI Executive Compensation Index specifically highlights compensation for three executive positions:

- Chief Executive Officer
- Outside Chairman of the Board
- Outside Board Member (other than the chair)

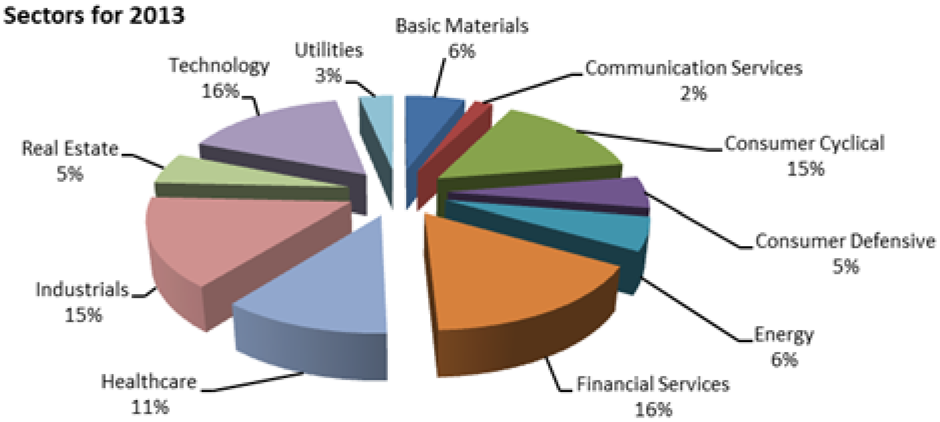
This report will also discuss the fluid landscape for the benchmark and analysis of executive compensation packages. Analysis of public company disclosures will drive this discussion.

Company-Level Data

Median revenue for the Russell 3000 increased 6.6% from 2012 to 2013. The median revenue for companies in the index was just over $787 million in 2013. From 2008 to 2009, median annual revenue dropped more than 12% for this group. Since 2009, median revenue rose more than 25%. Roughly 70% of companies in the index saw positive revenue growth in 2013, while 38% percent increased revenue by at least 10% over 2012. Updated 2014 company financial data will be available with the May 2015 edition of this index.

Figure 1 illustrates the 2013 Russell 3000 by industry sector. Financial services and technology companies were the most prevalent, collectively representing 32% of the index. Industrial manufacturers and cyclical consumer goods providers each represent 15%.

Figure 1: Industry Sectors for 2013



To analyze executive pay, the Russell 3000 companies were divided into three groups by the most recent market capitalization. The market cap groups were defined as follows:

- Small Cap – less than $750 million (1,093 companies)
- Medium Cap – between $750 million and $4 billion (1,086 companies)
- Large Cap – greater than $4 billion (820 companies)

Chief Executive Officer

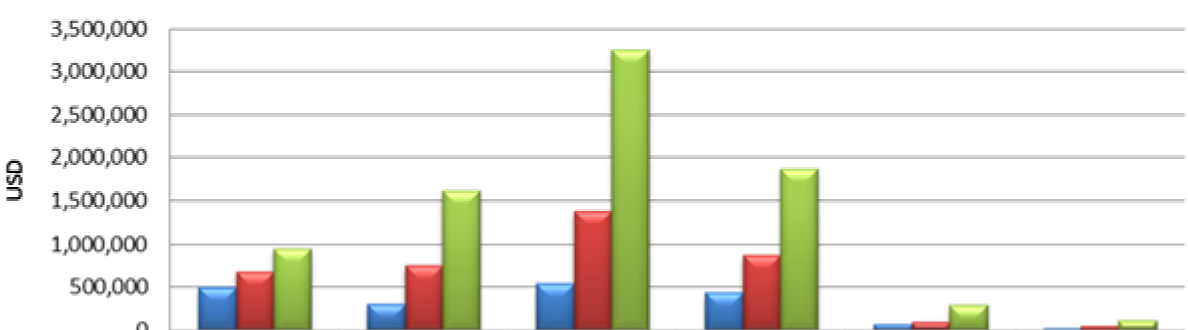
Each edition of ERI's Executive Compensation Index includes an analysis of CEO compensation. New data is compiled in the first quarter of each year and is first available in the May edition of the index. Table 1 shows the median total direct compensation for Russell 3000 Chief Executive Officers in 2013. Total direct compensation includes salary, annual cash incentive, and the grant-date value of stock and option awards in a fiscal year. This measure of annual compensation remained flat for the small cap group, but increased by 12% and 6%, respectively, for medium and large cap companies.

Table 1 - 2013 CEO Total Direct Compensation

Market Cap Group	Total Direct Compensation ($)		
	25th Percentile	Median	75th Percentile
1	818,767	1,349,278	2,299,465
2	1,779,375	3,053,776	4,743,986
3	4,637,262	7,251,698	11,127,000

Figure 2 displays median values for the four components of total direct compensation. It also shows values for two other traditional summary compensation table elements. Pension refers to above-market earnings in, or direct payouts to, non-qualified or deferred compensation plans. Other refers to executive benefits and perquisites (e.g., use of the company aircraft) that are not included in one of the other categories.

Figure 2: Median CEO Compensation by Market Cap Group for 2013



	Salary	Annual Incentive	Stock Award	Option Award	Pension	Other
Small Cap	495,833	305,000	539,809	438,000	74,899	29,330
Medium Cap	685,000	750,000	1,380,197	877,798	93,603	47,075
Large Cap	950,000	1,620,000	3,262,666	1,876,491	298,934	118,554

CEO Salary

CEO salaries increased across the board in 2013. The small and medium market cap groups saw roughly 6% salary increases, while the large group median salary increased 2%. The median salary for the top executives at small cap companies was just under $500,000. Large cap CEOs earned base salaries roughly twice that of small caps on average.

CEO Annual Cash Incentive

Annual cash incentives generally increased from 2012 levels. In both 2012 and 2013, roughly 34% of CEOs received cash incentives of at least $1 million.

These types of payouts typically fall into one of three categories. They can be based on individual or company performance in a reactive way, in which case the compensation committees make a somewhat subjective decision regarding payout amounts at the end of given period. They can also be proactive, where specific plan targets and performance goals, set at the beginning of a period, determine payout amounts. Lastly, they may not be based on performance at all. Examples of non-performance cash include sign-on and retention bonuses, and cash bonuses resulting from a merger agreement. Executive compensation packages often include annual cash incentives with components in more than one of these categories. When this is the case, the proactive piece is reported separately. This report refers to target-based and objective-driven cash incentives as "performance cash" and all other cash incentives as "discretionary bonuses."

Figure 3 lays out the percentage of CEOs receiving these types of bonuses since 2006. Discretionary bonuses and performance cash payouts were equally likely in CEO pay packages in 2006. In 2013, only 1 in 5 CEO packages included discretionary annual cash, while 70% included payouts pursuant to objective predetermined performance achievement.

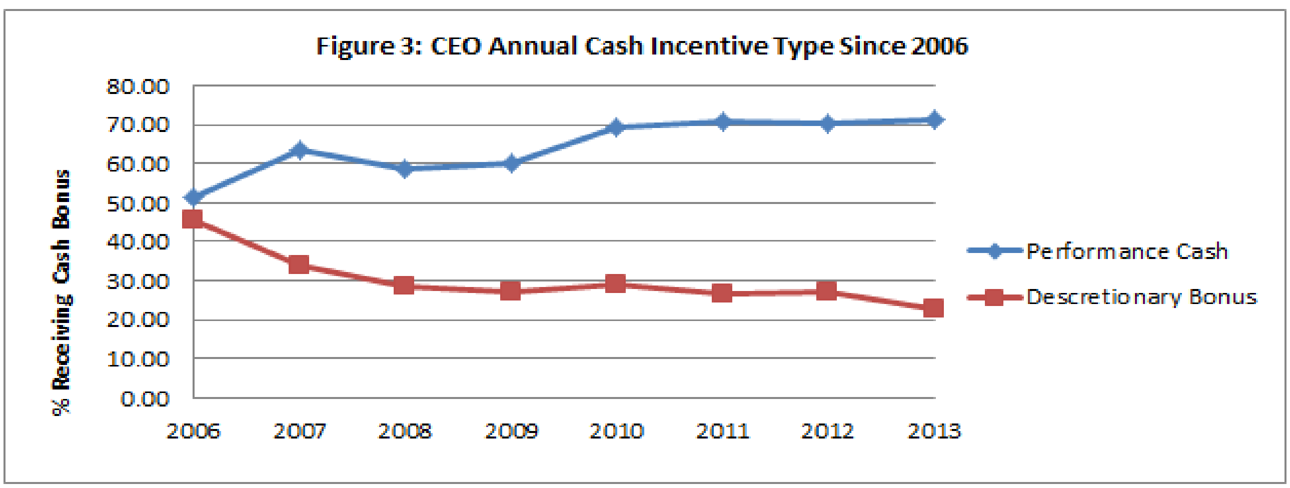
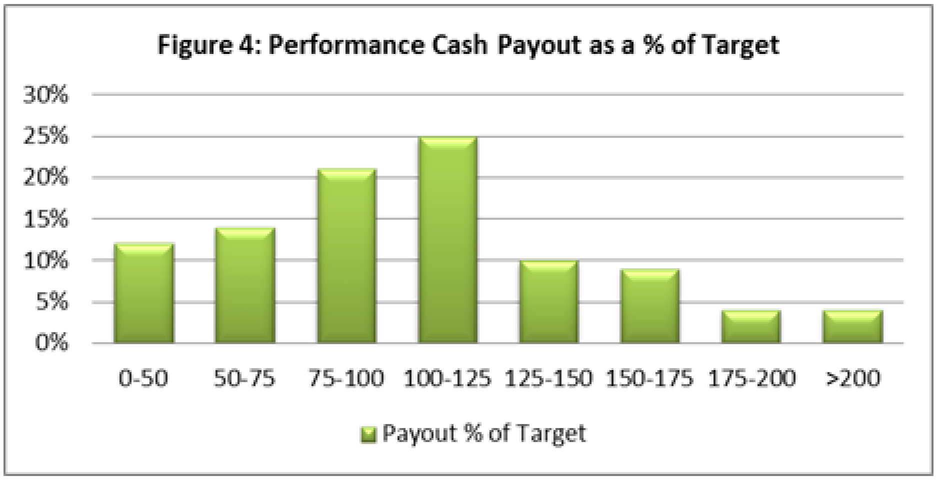


Figure 4 illustrates CEO payouts from performance-based annual cash incentive plans in 2013. Of those CEOs that earned performance cash in 2013, 74% received payouts that were at least 75% of the predetermined plan target. More than one third of performance cash payouts were 25% or more above target.



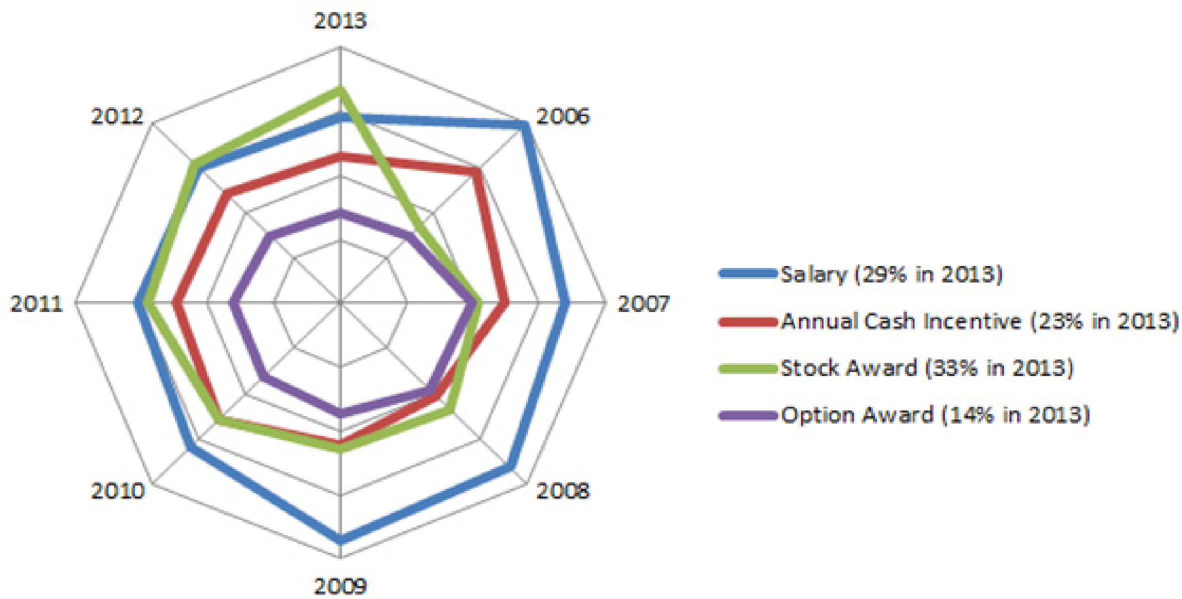
More than 70% of Russell 3000 companies reported using more than one performance measure in determining performance cash payouts in 2013. The most common plan designs included between two and five metrics. Naturally, most plan designs included measures of earnings growth and returns to shareholders, but non-financial goals were reported in about 10% of cases. Where the outcomes could be measured objectively, things like workplace safety and customer satisfaction also affected executive cash incentives. Many companies use a weighted approach, assigning more weight to those performance goals that are considered more important to overall company success.

CEO Equity Compensation

Median CEO stock and option grants increased in 2013 for all public company sizes. The full-value stock awards rose by more however, continuing the recent trend of stock appreciation grants becoming less popular in favor of restricted stock awards or restricted stock units.

Figure 5 summarizes how the mix of CEO total direct compensation has changed since 2006. Full-value stock awards have risen from 17% to more than one third of the total value of CEO pay packages. Through the volatile years following the 2008 recession, fixed cash base salary was the easily the largest component. More recently, however, more investor attention to pay-for-performance along with an improving economy has led to the increased importance of equity and variable cash.

Figure 5: CEO Pay Mix 2006 to 2013



Outside Chairman of the Board

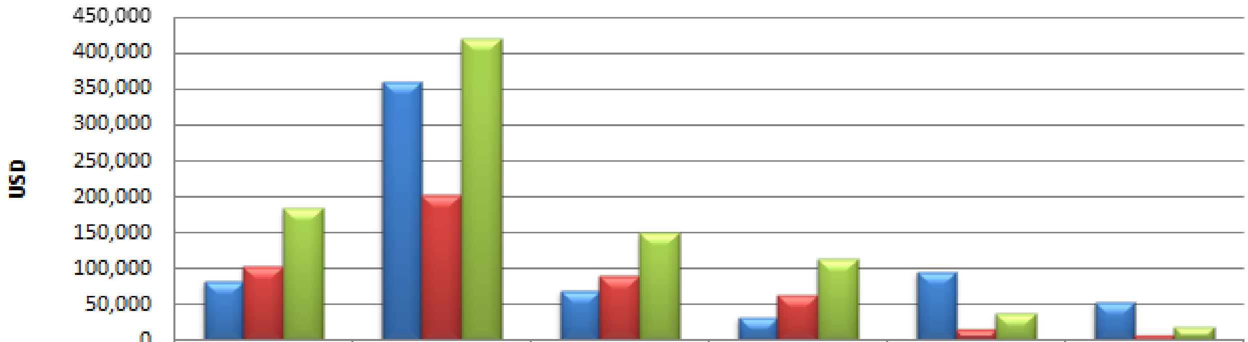
Table 2 shows the median total direct compensation for Russell 3000 outside board chairs in 2013. Median total direct increased 5.4% for medium cap chairs in 2013. Large cap chairs saw a more than 15% increase over 2012, and small cap chairs saw a 7% increase.

Table 2 - 2013 Board Chair Total Direct Compensation

Market Cap Group	Total Direct Compensation ($)		
	25th Percentile	Median	75th Percentile
1	113,080	164,700	241,977
2	165,730	237,500	290,117
3	275,131	360,930	499,927

Figure 6 displays median values for the four components of total direct compensation, as well as medians for the Pension and Other columns defined in the CEO section of this report. Again these values should be interpreted as the median for those board chairs earning some compensation in the given form. Of those large-cap board chairs who were granted a stock award in 2013, for example, the median grant-date value was $150,000. Table 3 shows what percentage of board chairs received compensation via each component in 2013. The most notable highlight is that, although an annual cash incentive is a large piece of the compensation pie for those chairs who earned one, fewer than 10% of outside board chair packages included this type of pay.

Figure 6: Median Outside Board Chair Compensation by Market Cap Group for 2013



	Cash Fees	Annual Incentive	Stock Award	Option Award	Pension	Other
Small Cap	82,625	360,534	70,000	32,471	96,503	53,483
Medium Cap	103,700	201,802	89,995	63,105	15,226	7,623
Large Cap	183,313	420,000	150,000	112,494	38,151	19,227

Table 3 - Percentage of Outside Board Chairs Earning Specific Pay Components in 2013

Market Cap Group	Cash Fees	Annual Incentive	Stock Awards	Option Awards	Pension	Other
1	100	8.2	67.1	28.8	6.9	27.4
2	100	8.5	84.5	28.2	5.6	29.6
3	100	10.4	93.8	22.9	6.3	41.7

Outside Board Member

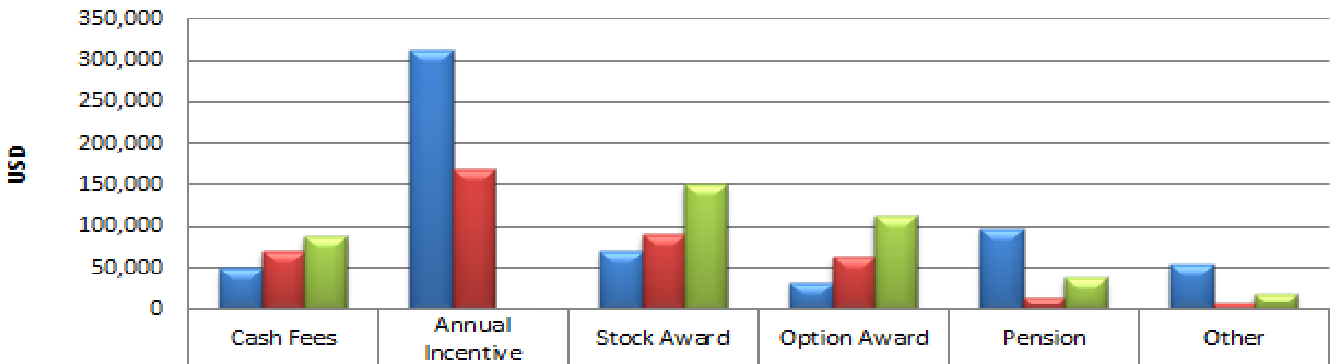
Table 4 shows the median total direct compensation for Russell 3000 non-executive board members in 2013. This excludes board chairs as they were analyzed separately in this report. Board members in the smallest market cap group saw the largest relative increase in total direct compensation at just over 10% between 2012 and 2013. Total direct also increased for the medium and large cap groups by 5% and 3%, respectively.

Table 4 - 2013 Board Member Total Direct Compensation

Market Cap Group	Total Direct Compensation ($)		
	25th Percentile	Median	75th Percentile
1	61,735	103,464	134,279
2	120,485	164,367	203,410
3	194,562	226,401	265,000

Figure 7 breaks total direct compensation into its respective components for outside board members. As was the case in the previous section for board chairs, the largest median values were for annual incentives. It is important to note, however, that annual cash incentives are particularly unusual for non-chairman outside directors. Less than 1% of those in this sample received this type of variable cash. Most board members received some sort of company equity, with full-value awards outpacing appreciation awards by a factor of four.

Figure 7: Median Outside Board Member Compensation by Market Cap Group for 2013



	Cash Fees	Annual Incentive	Stock Award	Option Award	Pension	Other
Small Cap	50,000	312,800	70,000	32,471	96,503	53,483
Medium Cap	70,000	170,000	89,995	63,105	15,226	7,623
Large Cap	88,000	0	150,000	112,494	38,151	19,227

Table 5 - Percentage of Outside Board Members Earning Specific Pay Components in 2013

Market Cap Group	Cash Fees	Annual Incentive	Stock Awards	Option Awards	Pension	Other
1	100	0.4	69.9	28.8	2.9	12.2
2	100	0.4	79.7	28.3	2.8	23.2
3	100	0.1	87.0	21.3	3.7	26.0

Supplemental Information

CEO to Worker Pay Ratio Disclosure
As of this report date, rules have still not been finalized regarding disparity disclosure between CEO pay and a company's average worker. Many experts still believe that the enforcement of pay ratio disclosure will come before the end of 2015, but the cost of compliance and the usefulness of this information to investors are still hotly debated. It has now been nearly five years since the enactment of Dodd-Frank in 2010 when this rule was first introduced.

Peer Group Analysis
One of the inputs that public companies generally use in designing executive pay programs is benchmark comparison data based on a list of peers. In 2013, the typical comparison group included between 12 and 20 companies based on similar industries, company sizes, or both. Companies sometimes report comparison groups of up to 40 peers.

Stock Ownership Guidelines
Many companies report stock ownership guidelines as one of the methods used to align executive compensation with short-term and long-term business objectives. These guidelines are often measured in comparison to the executive's salary. As an example, Apple CEO Timothy Cook was required to maintain common stock ownership of at least ten times his base salary in 2013. As of the end of 2013, Cook maintained the stock equivalent of about 35 times his base salary.

Using this measure of stock ownership, Russell 3000 CEOs had the highest median employer equity stake at just over 18 times the base salary at the end of 2013. The median Chief Operating Officer maintained 8 times his/her base salary in employer stock, and the median Chief Financial Officer maintained a level 6.2 times higher.

Please email Matt Skrinjar at matt.skrinjar@erieri.com with questions or comments.

The ERI Executive Compensation Index – March 2015
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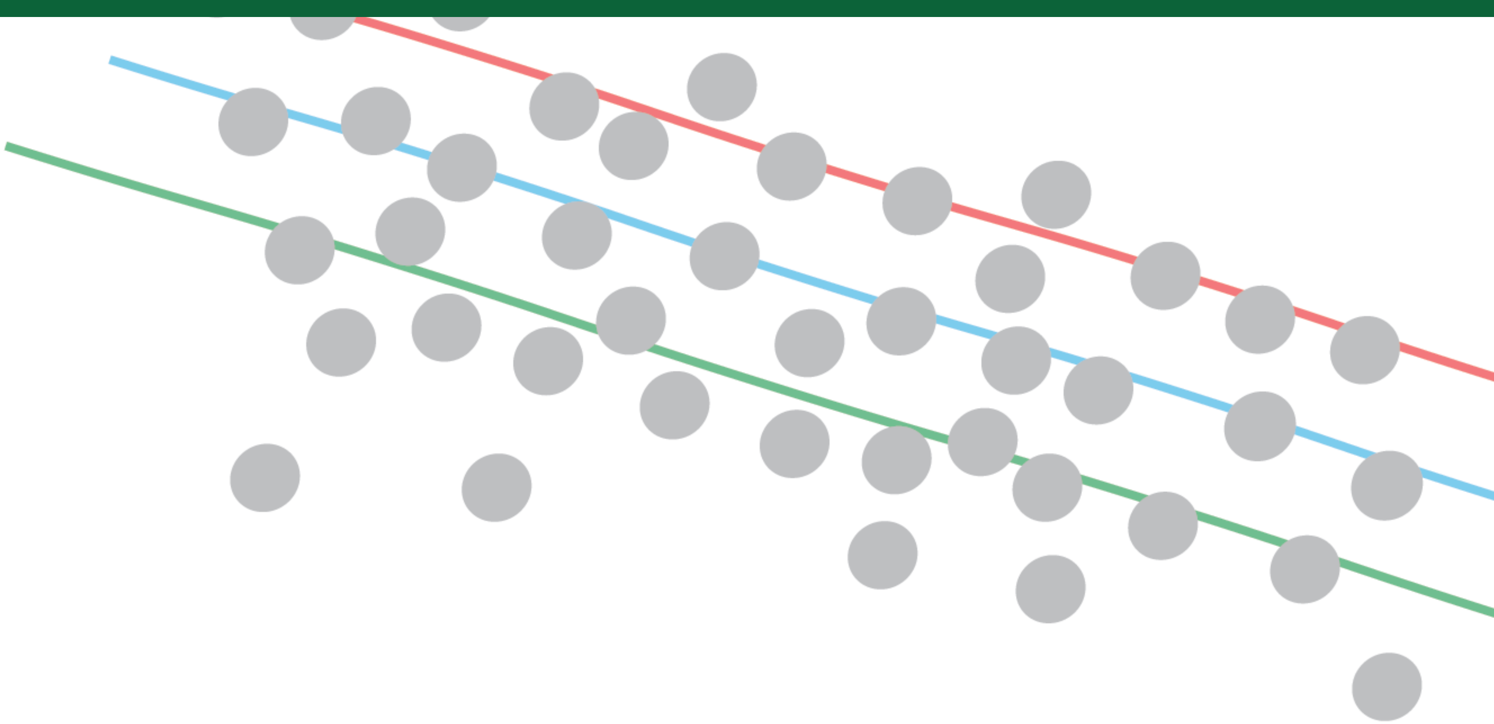

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