

CSUITE

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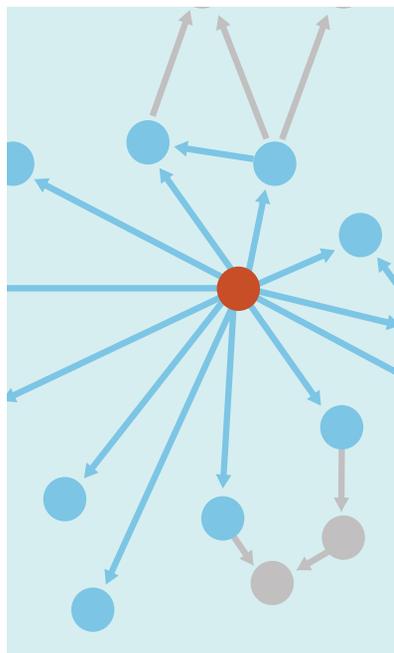


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IN SEARCH OF VISION

Charles Dow, JFK, and Peter Drucker are among the greats who set visions, from which great things flow.

by Roger Strukhoff, Aaron Boyd, and Nick Ezzo



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C-SuiteInsight is published by

EQUILAR[®]

1100 Marshall St.
Redwood City, CA 94063
Phone: (650) 241-6600
www.equilar.com

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David has led Equilar from a pure start-up since its inception in 2000 to one of the most respected and trusted names in the executive compensation industry.

CLARITY OF VISION

AS WE MOVE INTO the fourth quarter, Equilar, like many companies, is evaluating our year-to-date progress and strategically planning for success in 2013. More than an annual routine exercise, the practice of short- and long-range planning combines a retrospective review of the past with an insightful vision of the future. For this final 2012 *C-SUITE Insight*, we felt it appropriate to delve into the elusive concept of “Vision”.

In this issue a remarkable roster of visionaries helps us to shine a light on emerging trends and opportunities. One of our distinguished Executive Compensation Summit panelists, Yumi Narita, BlackRock’s VP of Corporate Governance and Responsible Investment, clarifies upcoming trends in shareholder engagement. We also sat down with two other prominent business leaders who bring a long-range view to their respective positions: Jean-Marc Levy, Head of Global Issuer Services at NYSE Euronext, and Matthew Lepore, Corporate Secretary and Chief Counsel of the Corporate Governance Department at Pfizer.

These executives are among the many thousands of our readers conceptualizing, developing, and executing a shared organizational vision, even while facing their numerous day-to-day business challenges. Vision is an important aspect of maintaining long-term corporate success and sustainable value—but what is vision, really?

We attempt to shed light on that very subject in our cover story with a look back at the firms that have been able to anticipate emerging trends and exploit previously unforeseen opportunities. Vision is also an aspect of two special reports in this issue: one on Peer Groups and another on the current state of Say on Pay. In an additional article we attempt to identify the universities that have produced the largest numbers of leaders and visionaries. And in “Consultant’s Corner”, we explore another role that involves both foresight and imagination, the board member, as we talk with executive search firms about recruiting new directors and integrating them into the board and organization.

You’ll also find an update on our recently-launched Behind the Numbers series of YouTube video shorts, which address recent events in compensation and governance in a visually-interesting, easily-accessible format. As is our tradition, we let Seymour Cash have the final word. Frankly, when it comes to “the vision thing,” we’re not surprised at how he goes about it!

I hope this installment of *C-SUITE Insight* provides some degree of clarity for you. Please don’t hesitate to reach out with your feedback, suggestions, and ideas. 

A handwritten signature in black ink that reads "David Chun".

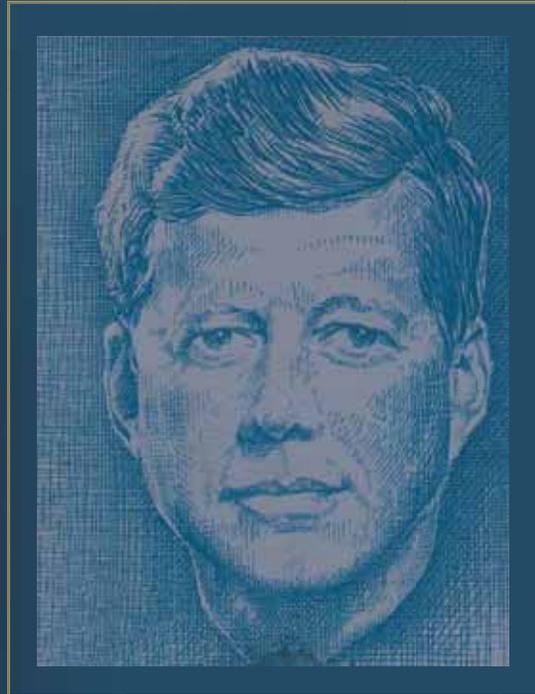
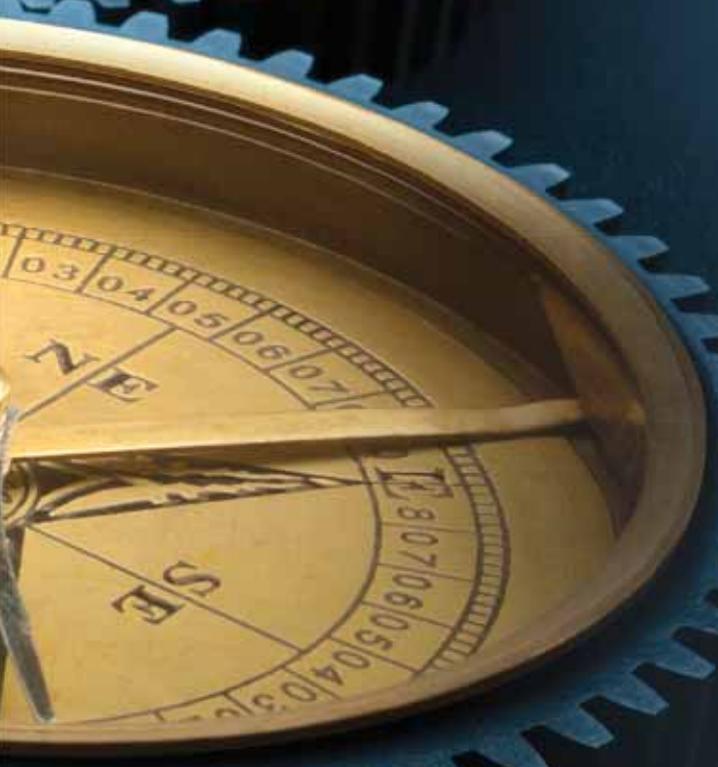
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In
Search
of
Vision

BY ROGER STRUKHOFF, AARON BOYD, AND NICK EZZO





VISIONARY



In 1961, John F. Kennedy famously proclaimed the goal that America would land a man on the moon and return him to Earth safely within the decade. This was noteworthy not just because no one had ever set foot on the moon, but because the technology to do so had yet to be invented. JFK's speech is seen as the pivotal moment in America's prominence in space exploration.

His willingness to take a bold risk to achieve a goal culminating with Neil Armstrong memorably taking "one giant leap for mankind" stands as a shining example for those who peer into the future and strive to shape it.

In this rapidly changing world, successful companies are like JFK in that they can gaze into the future and adjust their plans accordingly to achieve success. Over time, which companies have proven to be true visionaries?

In looking back to the late nineteenth century and the earliest days of public trading, a handful of railroads and communications pioneer Western Union were components of Charles Dow's original "Transportation Index." Dow released his first Industrial Average in 1896. Western Union found its way onto Dow's list in 1916 and remained there until 1927. Although no longer a member of the 30-company Dow Jones Industrial Average, the Western Union of today has repositioned itself to provide service in the electronic transfer of funds, and remains profitable.

As the economy modernized in the twentieth century, the Dow Jones began to diversify itself, incorporating chemical companies like DuPont, merchandisers Sears & Roebuck, as well as electrical and electronics companies like General Electric and its offspring, RCA. Perhaps most importantly, the Dow included automobile manufacturers General Motors and Chrysler, two visionary companies that changed both the business landscape and the natural landscape, as highways crisscrossed the nation and filling stations, motels, and diners blossomed.

After the stock market crash of 1929 and the onset of the Great Depression, a growing tabulating equipment firm by the name of International Business Machines made its first appearance on the Dow in 1932.

Unlike some other companies on those early Dow indices, these companies have all managed to stay relevant and remain leaders in the business world. These companies all clearly had a vision. After all, who remembers Dow companies like Pacific Mail Steamship or Baldwin Locomotive Works?

Visionary companies are not just those who come up with the best products at the right time, but in fact are those companies that show foresight in using best business practices that continue to have long-term success.

TODAY'S VISIONARIES

The challenge to C-suites today is “exponentially more complex” than in the past, NYSE Euronext executive Jean-Marc Levy points out in an interview in this issue of *C-Suite Insight*. So what are today’s visionary companies?

Visionary companies are not just those who come up with the best products at the right time, but in fact are those companies that show foresight in using best business practices that continue to have long-term success.

In 2008, prior to the Dodd-Frank Wall Street Reform and Consumer Protection Act and mandatory Say on Pay votes, Aflac became the first pub-

licly traded U.S. company to give its shareholders a vote on executive pay packages. Aflac foresaw a growing trend in which shareholders would begin to submit proposals requesting advisory votes on executive compensation. The company’s leaders saw the importance of involving shareholders in the compensation discussion before the process became mandated by regulation. When Dodd-Frank rules became law companies scrambled to make sure they clearly communicated their pay message to investors. Meanwhile, Aflac was instead able to focus on improving their business outlook for long-term success.

Another regulation contained in the Dodd-Frank law is the CEO-to-worker pay ratio requiring companies to disclose the ratio between the CEO’s pay and the median worker’s pay once it becomes law. Still awaiting the SEC’s guidance on this rule, companies are waiting for what appears to be an inevitable proxy disclosure piece. Public sentiment against CEO pay outpacing that of the average worker has grown significantly over the last decade.

One company that is among the few to proactively address this CEO-to-worker pay issue is Whole Foods market, Inc. Each year, this supermarket giant discloses the average annual wage of its workers and uses that data to cap executive salaries, limiting executive pay to 19 times that of the average worker. This focus on internal pay equity and the promotion of fairness to both employees and shareholders shows that companies that focus on the well-being of their employees can succeed. Making employees happy certainly has made investors happy. The company’s stock over the last 10 years has seen greater than 400% growth.

As the market’s current outlier, and the most valuable company in the world, Apple isn’t just leading in new products, but is also a leader in creative executive compen-



sation. Current CEO Tim Cook leads the list of the highest paid executives, having received \$378 million in total compensation in 2011. However, only \$900K of this was salary, and he received no cash bonus. So 99.8% percent of his compensation was in the form of stock awards. His million-share stock award is the largest of its kind ever, but also requires one of the longest time frames in which to receive it, 10 years. Ten years is a lifetime for most CEOs, and the value he will eventually receive is contingent on the company maintaining its historically high share price. Apple chose its CEO and has set down a marker for his and the company's success, while nearly guaranteeing Mr. Cook still be in the top executive role for ten years. Cook's ability to predict and stay ahead of technology trends for the next decade will ultimately determine his success.

EXPLORING EXCELLENCE

Before most modern-day research came into existence, management consultants Tom Peters and Robert Waterman were among the first to explore what factors make great, visionary companies with their popular 1982 book, *In Search of Excellence*.

The book described the culture and practices of companies like HP, IBM, Intel, National Semiconductor, Proctor & Gamble, Wal-Mart, Johnson & Johnson, Delta Airlines, Dow Chemical, DuPont, Disney, McDonald's, 3M, Bristol-Meyers, Boeing, and Caterpillar. Peters and Waterman outlined eight key points that all excellent companies possess, including a bias for action, the belief that employees are true assets, "sticking to the knitting," and most importantly, staying close to the customer.

That latter point has been challenged over the decades in ideas and books such as Clayton Christensen's *The Innovator's Dilemma*, which points out that companies can be blindsided by new approaches if they listen only to their customers.

Christensen also points out the fallacy of the traditional "build a better mousetrap" approach to products, noting that technically simpler (and sometimes inferior) products and services win the day. In counterpoint, the recent history of Apple under Steve Jobs showed that if you build a better mousetrap you can succeed, particularly if you re-invent or create a product category.



VISION AND PROFIT

One thing is important and universal to any visionary company: making money. As the late management guru Peter Drucker wrote, "Profit is not the explanation, cause, or rationale of business behavior and business decisions, but rather the test of their validity. If archangels instead of businessmen sat in directors' chairs, they would still have to be concerned with profitability, despite their total lack of personal interest in making profits."

Drucker noted that a company "can make a social contribution only if it is highly profitable." Indeed, even if single-year total return sags, no CEO will stay in that job long if a company remains unprofitable for an extended period of time. Today that length of time is becoming shorter and shorter.

SMALLER COMPANIES, TOO

Drucker has been studied by business leaders in companies of all sizes and configurations. He certainly knew as well as anyone that vision doesn't apply only to the largest public companies. A quick review of the Russell Midcap Index shows two quite different companies, Heinz and Avon, as companies that have adapted to remain successful after decades in business.

Another look at success is provided by the Great Place to Work Institute, which has been identifying corporate excellence since 1998. The most recent list of Great Places to Work is published in Fortune Magazine and includes hot tech companies Google, Rackspace, and SAS. It also includes hotel chains Marriott, Four Seasons, and Intercontinental Hotel Group, as well as merchandisers Nordstrom, Mattel, Starbucks, REI, Zappos, and the Build-a-Bear Workshop. Privately held Wegmans Food Markets and the publicly traded Nugget Market also are on this eclectic list.

A look back at the original 1998 list finds Marriott, Mattel, Nordstrom, REI, SAS, and Starbucks, companies still thought of as good places to work. Other stars from 1998 who've maintained excellent reputations include Southwest Airlines, Merck, HP, Harley-Davidson, Federal Express, LL Bean, and Deere. The Institute also identifies several dozen small and medium businesses, including Radio Flyer (yes, the purveyor of red wagons for kids) and the custom publishing company McMurry.

Given these various inputs, how can we determine how a company becomes and remains visionary in these complex times? How can investors determine which companies have the vision to stay successful over the long term?

Perhaps it can be boiled down to another bit
of Peter Drucker's advice:

"There is only one definition
of business purpose:
to create a customer."
All of the companies
discussed here have done
exactly that, and have
built long-lasting brands
and companies in the process.



2012

**"THE YEAR OF THE VOTE"
IS HERE**



**REPORT
SAY ON PAY**



2012

THE YEAR 2012 IS PROVING TO BE THE “YEAR OF THE VOTE” in the United States: nine Supreme Court justices ruling on everything from campaign finance to healthcare, more than 150 million Americans gearing up to vote in what promises to be a tightly-contested Presidential election, and millions of shareholders participating in annual meetings across the nation.

Since the Dodd–Frank Wall Street Reform and Consumer Protection Act passed in July 2010, public companies have had to revamp their approach to shareholder meetings. One of their chief concerns has become the mandatory Say on Pay vote, requiring companies to provide shareholders with a vote on executive compensation at regular intervals.

As a result, Say on Pay has also provided a huge incentive to improve communication between the Board and shareholders. Although the vote itself is nonbinding and rejections are rare, companies have quickly come to understand that shareholders are not rubber-stamping

Say on Pay, and the votes serve somewhat as a referendum on company performance. No firm wants to deal with the public relations nightmare and “egg-on-face” consequences of a negative Say on Pay vote.

In 2011, Equilar’s Say on Pay voting analysis yielded some interesting results: some surprise losses, some approvals that teetered on the edge of rejection, but resounding wins for the large majority of companies. But did last year’s results drive voting patterns in the current year? In this article, Equilar will take an in-depth look at 2012 results of Say on Pay votes across the country and the motivations driving Yes or No votes at shareholder meetings.



ANALYZING THE RUSSELL 3000

In order to shed greater light on the impact of Say on Pay, Equilar analyzed 2012 voting results from companies listed in the Russell 3000 Index. These companies held Annual Meetings between January 1 and June 30, 2012 and for most, Say on Pay proved to be little more than a routine affair.

For 51 companies (2.5 percent), however, shareholders served notice that they were not satisfied with their company's executive's compensation packages and voted down their firm's Say on Pay resolution. On the other hand, 90.9 percent of companies passed their Say on Pay vote with at least 70% approval; this threshold is used by certain proxy advisors as a cutoff point for acceptable executive compensation practices that generally will not require further review the next year.

While an overwhelming majority of companies won their Say on Pay votes, 9.1 percent of companies either failed or fell below the cautionary 70% baseline.

Equilar also looked at the change in voting percentages for the companies that held votes last year. 52.6 percent of companies saw a decrease in approval rates from 2011. The majority of companies had changes in vote shares in relatively small amounts; 73.9 percent of companies fell within ten percentage points of their previous year's vote. In the aggregate, the average Say on Pay resolution saw a 0.6 percentage point decrease. Despite the abundance of similar voting outcomes, a few companies did see significant vote shifts: 7.7 percent of companies had a 20 percentage point drop or more and 5.6 percent of companies increased the positive vote share by at least 20 percentage points.

CEO PAY GROWTH

As the most visible individual within each organization, a firm's Chief Executive Officer (CEO) is often the first to disclose exciting new developments like a new product or joint venture. Of course, the CEO is often the most highly compensated executive as well, and thus must bear the brunt of irritation from shareholders unhappy with a company's performance. In this manner, the CEO's visibility becomes a double-edged sword when investors look for a figurehead to criticize when a company's performance and compensation seem to be going in opposite directions.

Equilar examined year over year CEO pay growth as a potential driving factor in determining Say on Pay votes. We used total direct compensation (TDC), which combines cash compensation with a grant-date value for equity grants.

Votes can swing quickly and definitively from a "Pass" to a "Fail" when shareholders deem executive compensation to be out of tune with company performance.

As a result, Equilar found that companies that struggled with their vote, either losing or receiving a low approval rate, saw bigger median increases in TDC. Companies that failed their vote had a median change CEO pay growth of 12.4 percent while firms with approval between 50% and 59% saw the biggest increase with 33.6 percent.

In contrast, the median pay of CEOs at firms that tabulated vote shares above 90% for their executive compensation packages actually fell 10.4 percent, suggesting that companies with ballooning pay packages are at a much higher risk to receive unfavorable Say on Pay results than those that adjust CEO compensation downward.

A LOOK AT TSR

CEO pay growth is typically one part of the pay for performance evaluation. Another commonly used performance metric is Total Shareholder Return (TSR.) After all, the reason shareholder purchases equity in a company is a belief that there will be strong and consistent growth in the stock. In order to capture the relationship between TSR and Say on Pay votes, Equilar studied 2,011 public corporations in the Russell 3000 Index and broke down each company's TSR into four quartiles.

Top performing companies were placed in the 1st Quartile and the companies with the weakest TSRs were sorted into the 4th Quartile. By doing so, Equilar was able to identify logical trend lines where companies with higher TSR tended to have higher positive vote share percentages with regards to Say on Pay.

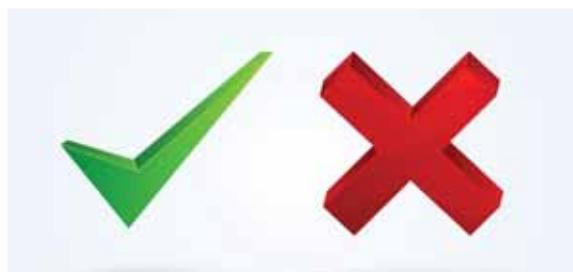
Over the short-term, shareholders exhibited predictable voting tendencies. 78.4 percent of firms that had their Say on Pay proposals rejected had 1-year TSRs in the bottom half of the dataset, while only 7.8 percent had top quartile TSRs. On the other hand, companies with 1-year TSRs in the top half saw their proposals pass by an overwhelming 90% or more. Only 18.2 percent of companies with 90%+ votes had bottom quartile

TSRs. In addition, Equilar projected 3-Year TSR over the four quartiles within the dataset and found similar results in terms of TSR and positive vote share.

Shareholders seem to consider long-term company performance in the same manner as short-term performance when considering TSR to Say on Pay. An even greater percentage of firms (82.4 percent) that had a negative Say on Pay vote had 3-year TSRs in the bottom two quartiles. Increased 3-year TSR returns equated to a much stronger affirmation of approved proposals where once again less than 20 percent (19.9 percent) of 90%+ approvals corresponded to bottom quartile TSRs.

On the whole, rejected Say on Pay proposals tend to be a very small percentage of proposals voted on during annual meeting season. Nonetheless, every interested investor, market analyst, executive and Board member tends to start paying attention when the media starts drafting headlines highlighting failed Say on Pay votes.

These are not subtle shareholder messages either. Votes can swing quickly and definitively from a "Pass" to a "Fail" when shareholders deem executive compensation to be out of tune with company performance. Also as expected, consecutive years of poor company performance simply does not bode well with regards to Say on Pay passage. With this in mind, companies would be well served to monitor relevant metrics, like CEO pay growth and TSR, which directly and indirectly feed into stockholders' voting tendencies. **e**





Behind the Numbers

Video Shorts Deliver Concise and Insightful Reporting

BY NICK EZZO

If a picture is worth a thousand words a video is worth more. Earlier this year, Equilar embraced the concept of Internet video as a way to distribute meaningful in-depth compensation concepts that are quickly and succinctly explained. Our Behind The Numbers video shorts, using visually interesting vignettes, provide viewers with a concise and accessible examination of compensation issues.

To date, Equilar has produced more than fifteen Behind The Numbers video shorts, addressing a wide array of concepts, including "Which industries pay their CEOs the most?" and "Why does the media report widely varying executive pay figures?" These videos, using the collective knowledge of Equilar's research team and award-winning data, have been well-received by readers of *C-Suite Insight*, industry professionals, and by members of the media.

The series is hosted by Emmy winner Bonnie Day, former anchor, reporter and producer for NBC, ABC and Fox News, and currently a producer for the PBS television show MoneyTrack.

The first year's topics and videos have spanned a wide range of subjects. What follows is a brief roundup of episodes from the first season of Behind The Numbers.

PAY AT THE TOP

"Battle of the Sexes" compares the highest levels of male and female executive compensation, while "CEO Pay by Industry" uses data from the Equilar 2012 S&P 500 CEO Pay Study, to look at the industries that typically pay their CEOs the most.

In "Profile of a CFO," we used data on CFO median pay, age, and tenure at each company to shed light on one of the less understood members of the executive team, the Chief Financial Officer.

YAHOO!

When Yahoo appointed new CEO Marissa Mayer, various news media outlets reported her compensation package between \$59M to \$129M. We go beyond the headlines to uncover the truth behind what she's really getting paid in "Marissa Mayer: The Full Package?"

Since 2007, Yahoo had seven different CEOs serving in either a full-time or interim capacity. In "The Comings and Goings of Yahoo! CEOs," we take a closer look at the changing faces of Yahoo's chief executives during the last decade.

NEW YORK TIMES CEO PAY STUDY

This installment provides a deeper explanation of the data in The New York Times article, "CEO Pay Is Rising Despite the Din." It delivers accurate data on how much wealth these 200 top executives have accumulated.

CLAWBACKS 101

Using Equilar's findings from the 2012 Clawback Policies Report, we review what a clawback policy is as we examine what triggered one major U.S. bank to put their clawback policy into action.

SAY ON PAY

In "Say on Pay: Year Two Success Stories," we review the firms that received negative 2011 Say on Pay votes, and outline the proactive steps they made to receive a positive 2012 vote.

In Say on Pay's second year (2012), recommendations from proxy advisors grew in significance for public companies.

The video, "Responding to Negative Recommendations," looks at firms that faced challenging negative recommendations by proxy advisors in 2012, and examines the steps those companies took to defend their pay practices.

PEER GROUPS

In setting competitive executive pay, proper peer group selection is critical. Often referred to as more of an art than a science, the process of picking a peer group is a hotly debated topic. In "Choosing the Right Peer Group," we explore this controversial topic using real world examples.

The need for a more relevant peer group continues to be a critical factor in evaluating executive pay. However, when proxy advisors create peer groups, the results can be quite different from those selected by compensation professionals, creating a contentious debate about the effectiveness and fairness of proxy advisors recommending compensation peer groups.

In "Equilar Market Peers," we introduce a completely new way of looking at peers; which may solve this problem.

In Conclusion

Executive compensation can pose many challenging questions. However, video is a powerful format for explaining complex issues using compelling stories. With Equilar's Behind The Numbers video shorts, we'll continue to provide the deeper analysis of executive compensation issues and news you expect from us. 



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The Power of Networks

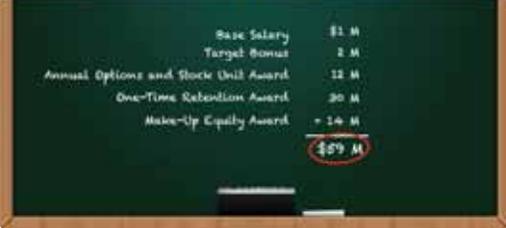


Peers
Incoming Peers
Peers of Peers
Peers of Incoming Peers

Behind The NUMBERS by EQUILAR



The Elusive Pay Package



| | |
|-------------------------------------|---------------|
| Base Salary | \$1 M |
| Target Bonus | 2 M |
| Annual Options and Stock Unit Award | 11 M |
| One-Time Retention Award | 20 M |
| Make-Up Equity Award | + 14 M |
| Total | \$59 M |

Behind The NUMBERS by EQUILAR

What Not To Do



- Financial Restatement
- Ethical Misconduct
- Noncomplete Violation

Behind The NUMBERS by EQUILAR

Bonnie Day
Series Host of
Behind the Numbers



New Faces In The S&P500



Virginia Remetty | Alex Gattis | Don Thompson | Marissa Mayer & Scott Thompson

IBM | Johnson & Johnson | McDonald's | YAHOO!

Behind The NUMBERS by EQUILAR

Battle Of The Conferences



| Rank | Conference | Attendees |
|------|------------|-----------|
| 1ST | IVY | 56 |
| 2ND | BIG | 46 |
| 3RD | AMBA | 31 |
| 4TH | AACSB | 30 |
| 5TH | EFMD | 24 |

Behind The NUMBERS by EQUILAR

INTERVIEW WITH **JEAN-MARC LEVY**

Jean-Marc Levy is Head of Global Issuer Services, NYSE Euronext, where he is responsible for the identification and development of new business opportunities adjacent or complementary to NYSE's global listings business, through build, buy or partnership. His responsibilities also include the management and development of NYSE's services delivery platform for its global community of over 2100 listed companies.

Jean-Marc has an extensive track record of building fast-growing internet and emerging technologies businesses. He has held senior operating and business development positions at TheMarkets.com, a successful financial services start-up, and at other information and financial services organizations such as Advanstar Communications, the Thomson Corporation, Moody's Investors Service, Shearson Lehman Brothers, and the Dun & Bradstreet Corporation.

He was also a co-founder of Rudder Capital, a boutique advisory services firm serving the information and financial services industries,

Jean-Marc has served on several advisory boards, has taught graduate level courses on eBusiness and Strategy Development, and is also a judge in the Wharton School's annual Venture Fair business plan competition.

Jean-Marc graduated with a B.S. degree in Computer Science from Tulane University and earned an M.B.A. from the Wharton School at the University of Pennsylvania.

"A WAY TO HELP NAVIGATE
THE COMPLEXITIES"



C-Suite Insight: Could you outline some of the major initiatives you're leading now in issuer services? How global is the reach, given that your organization spans continents?

Jean-Marc Levy: I think the easiest way to start is to think about what it is that we're trying to achieve with issuer services and what we're doing to achieve those goals. NYSE Euronext is truly a community of participants in the capital markets. The main role we play is to provide a platform for the various participants in those capital markets to interact with each other, to have transparency in their interactions, and to make those interactions as frictionless as possible.

The life of a CEO, as well as other C-level and IR executives within a publicly traded company is exponentially more complex today than it was ten years ago. This is due to regulation, more market fragmentation, and due to more demanding institutional investors.

CSI: And you play a role in addressing all this?

Jean-Marc: Yes. In the broadest sense, we view the role of issuer services as being a way to help businesses deal with and navigate the complexities of operating as publicly traded companies.

We do this by providing our listed companies with innovative products and services, by giving them access to thought leadership and educational opportunities, and by providing them access to superior advisory services.

CSI: So you have to have some vision in thinking about what you'll provide, today and tomorrow.

Jean-Marc: Vision is very, very important because you have to think beyond the services that financial institutions or exchanges have traditionally offered their listed companies. It goes beyond getting a stock ticker and being able to have your stock traded on a variety of platforms.

It's really about helping

these firms by providing them with best-in-class, tailored services that enable them to operate more effectively in this complex marketplace. To better understand their needs, we actively consult with all levels of these firms, not just with the Chief Financial Officer, but also the General Counsel, the Board of Directors, the Business Development Officer, the Corporate Secretary, the HR folks, and others within the company. This is the crux of what we do.

CSI: You mentioned complexity. What role does pace play here? It seems like the pace of trading, the truly global nature of markets, the pace of technology change, and even how quickly a particular company's market might change, are all complex and happening at different rates.

Jean-Marc: Executives today obviously work within a world in which the media, particularly social media, can influence the

perception that institutional investors have of their companies much faster than they used to. You could argue that even changes in the macro and regulatory environments take place at a much faster pace.

C-Suite: So with today's pace and complexity, one slight misstep could cause a huge problem in a way that simply couldn't happen ten years ago.

Jean-Marc: Yes, and let me give you an example. We've recently completed an acquisition of a company called Corpedia, a provider of compliance training and advisory services. Governance, Risk and Compliance (GRC) is becoming increasingly important to our member firms and the broader industry because the risks involved with not establishing good compliance practices are so great. Corpedia is a best-in-class solutions provider that will enable us to provide our clients with services to best meet their needs regarding governance and compliance. This is a great example of a "top-of-mind" issue for public issuers that wouldn't have made their top three list ten years ago.

CSI: How much of your job in a typical week is focused on initiatives you are executing right now versus planning on future services to provide?

Jean-Marc: There's probably not a week that goes by where my team and I are not considering at least half a dozen potential opportunities that could materialize anywhere from two to three months to a year down the road. So the challenge is not so much coming up with opportunities, but rather, using the right filter to determine the most critical need that we can help address for our customers.

A big part of maintaining our vision is deciding what opportunities not to pursue versus investing in the ones that we think are going to be truly valuable and that will create real differentiation.

CSI: How much insight do you get from your own customers?

Jean-Marc: We certainly spend a great deal of time talking to our customers to broaden our reach and level of interaction with all the various constituents within our listed companies. As we introduce more value-

added services, we interact with them even more and it becomes a virtuous cycle.

We now have relationships in many, many different areas of a corporation, and we interact with these companies and these people in one form or another literally hundreds of thousands of times per year across our client base.

So we get a tremendous amount of input. We also hold numerous executive peer exchanges, and we are able to tie that back to the theme of the community. We provide the opportunity for businesses to come together and talk in a very safe environment with their peers about some of the issues and concerns that are priorities for them. The benefit of being the catalyst and the organizer of those peer exchanges is that it allows us to focus on the areas that create the most pain and friction for them, and to try to help them find the right solutions.

CSI: What about other companies?

Jean-Marc: We spend a tremendous amount of time speaking with young, innovative companies that provide unique services



that may be relevant to our clients. We try to understand whether there's an opportunity to develop partnerships or services that can be tailored to the needs of our clients, based on the inside knowledge that we get.

WE HAVE RELATIONSHIPS IN MANY AREAS OF A CORPORATION

CSI: And your competition?

Jean-Marc: While we are aware of the products and services they provide, what our competitors are doing does not infuse our decision-making. We're much more driven by our mission and our vision in terms of what it is that we want to drive and provide to our clients, than by what the competition is doing.

CSI: You have several offices in Europe. How does what happens in Europe affect what's happening in the US for your listed companies?

Jean-Marc: For one thing, we have thousands of non-U.S. issuers that trade on our platforms. So when we think about issuer services, we really have to think about it from a global perspective. This does not necessarily mean coming up with services and solutions

that are universal in nature, but we certainly try to look at the whole issuer services space as a global one.

For example, the recent acquisition of Corpedia provides online training to large U.S. companies in various compliance and regulatory areas, but many of those large U.S. companies also have non-U.S. subsidiaries. These companies must spend a great deal of time translating their courseware into dozens of languages, and spend time customizing it to the more specific regulatory environments of other countries. So we need to think about services from a global perspective and not just a North American perspective.

CSI: How would you summarize NYSE Euronext in a few sentences then?

Jean-Marc: First, our market structure is truly unique. Our

hybrid model of technology and human supervision is one of the most resilient models in the capital markets business and is one that should be important to any company that is thinking about going public.

Second, the community that you join when you become a listed company on NYSE Euronext is genuinely unmatched. There is no other global B2B network that gives you access to such unprecedented thought leadership, best-in-class services and opportunities to interact with peers and intermediaries together in one place.

Finally, I think we have a real vision and a real dedication to trying to be not just a provider of services, but to be a thought leader in terms of shaping the industry and helping clients deal with the issues that are of utmost concern to them. **■**

INTERVIEW WITH **YUMI NARITA**

Yumi Narita is VP, Corporate Governance and Responsible Investment at BlackRock, and a member of Corporate Governance and Responsible Investment team. BlackRock's corporate governance program is focused on protecting and enhancing the economic value of the companies in which it invests on behalf of clients.

Yumi is responsible for analyzing and voting proxies, engaging with companies on corporate governance issues, contributing to corporate governance policy development, and supporting BlackRock's global proxy voting operations. Her governance focus is on the following US industries: food, retail, insurance and media.

She is also active in BlackRock's responsible investment efforts. Her service with the firm dates back to 2004, including her years with Barclays Global Investors (BGI), which merged with BlackRock in 2009.

Yumi received her BA in Anthropology from the University of California at Berkeley in 2001. Prior to joining BGI, she worked at the Asian Art Museum in San Francisco.

**"THE \$3.5 TRILLION IS
OUR CLIENTS' MONEY."**



C-Suite Insight: BlackRock manages more than \$3.5 trillion dollars in global assets. What are your company's key underlying principles that ensure your customers maintain confidence in the firm?

Yumi Narita: I think the most important thing I can say is that we are fiduciary investors. The \$3.5 trillion is not BlackRock's money. It's our clients' money and as a firm, we are very aware of this.

Specifically, in terms of corporate governance, we engage with companies to ensure that boards and management teams are working for the long-term interest of shareholders. And we communicate directly with companies. In our experience, a public confrontation is not as effective in achieving long-term results compared to having a more nuanced and private constructive dialogue with the company.

CSI: Say on Pay remains a big topic for public companies and their shareholders. What's your approach to this topic?

Yumi: I can give a little background on the topic first, because I think it helps to define our approach when it comes to Say on Pay. We

weren't supportive of Say on Pay when it was being considered as a regulatory requirement a few years back. We sent a letter to the SEC stating as much.

It's our belief that incentivizing executives is something that boards are best positioned to do, as shareholders have only a limited view into how compensation should be structured at any particular company. Directors, we believe, are our proxies and fiduciary representatives in the boardroom.

CSI: How do you proceed, given this approach?

Yumi: With our focus on directors, if we identify an issue with compensation, we vote against, or withhold votes from, compensation committee members as well as voting against Say on Pay. Most of the time, these are cases where we believe the board's approach is an outlier when compared to its peers (those who are competing for the same executive pool) and the CD&A does not adequately explain this approach.

But I think it's worthwhile to point out that the average Say on Pay vote is more than 90 percent (in favor) at companies in the Russell

3000. In fact, nearly three-quarters of companies have shareholder support over 90 percent. The perspective that most companies are not outliers in terms of compensation has been somewhat validated. Generally speaking, investors believe that most companies are doing a good job setting compensation.

CSI: How did your votes go this year?

Yumi: BlackRock's votes against compensation committee members and Say on Pay proposals increased by 30 percent in 2012. This is most likely a result of the increase in available data and analysis regarding compensation practices.

CSI: So analyses are becoming more sophisticated...

Yumi: Generally speaking, more companies are disclosing realizable pay and it's provided for us, along with other investors, a more effective tool for comparing pay among peers and against the company's performance. Also, service providers are creating better tools so that we can focus on the outliers and do a better pay-for-performance analysis.

CSI: You mentioned your involvement with directors? What major issues emerge from these discussions?

Yumi: The two issues that stood out for me this season were over-boarding and over-tenure.

BlackRock has an over-boarding policy, where we may vote against directors who have committed themselves to serve on more than four public boards, or where CEOs are serving on more than two public boards in addition to their own. In such cases, we think it's unlikely that the director or CEO will be able to commit sufficient focus and time to any particular company.

Most companies that I speak to are very supportive of their directors, and I would hope that they are supportive. I try to explain that we look at it more from a risk management perspective. For example, when one of the companies goes into crisis mode, which could be the result of audit weaknesses or waging of a proxy

contest or some type of management controversy etc., we need the directors to be able to perform their functions effectively.

CSI: It could be a simple matter of there only being so many hours in a day, to some extent, and when are the board meetings scheduled? I imagine there could come a point where a director may have too many commitments, and can't even make all their board meetings.

Yumi: Absolutely. I've seen an instance, actually, where a company was faced with a proxy contest and a very over-boarded director happened to be chair of the nominating committee. The board was unable to come up with any new director nominees, although there had been no changes in board composition for nearly a decade.

CSI: How common is this?

Yumi: Most companies don't have an issue with

over-boarded directors. Out of approximately 3,800 US companies, we identified roughly 170 individuals who were over boarded in the past year. So the ones we identify are outliers. But as I said, we look at these cases as a risk-management tool.

CSI: Then you mentioned over-tenured directors as well.

Yumi: Yes. Over-tenure is something for which BlackRock doesn't currently have a policy on in the U.S. or a specific tenure in mind. But when it comes to boards with a very long tenure, we believe the odds of group think are higher the longer directors work together. That's very human.

In particular, we hold independent directors accountable in looking out for shareholder interests. So we do encourage companies to think about board refreshment. It is a good idea for boards, we believe, to evaluate themselves and see if the current

MOST COMPANIES DON'T HAVE AN OVER-BOARDING ISSUE



constituency is appropriate for the current company's strategy. We believe directors should be asking themselves if they should have different perspectives or different skill sets on their board.

CSI: Have you seen a change in this era of Say on Pay, and Dodd-Frank in general, in the way companies present themselves in their proxies?

Yumi: Sure. I think the most effective improvement this year has been more transparency, particularly in the CD&A. I know "transparency" seems like a very simple answer, but it is something very necessary for investors to understand decisions with respect to compensation. We remind companies that we're not the experts on the inner workings of their company or of their compensation packages, but we're investors trying to understand how you're incentivizing your executives.

CSI: So you've seen a difference in just the one year.

Yumi: In particular, I would point to executive sum-

maries, which have become more advanced in terms of telling a story tying pay to performance that makes sense to an outsider. I can compare this to last year, when many companies were caught a little bit off guard, and we had a lot of last minute calls from companies before their AGMs (Annual General Meetings), so they could vet their Say on Pay approach.

Proxy statements are becoming much more sophisticated. Companies are putting more effort into them. There's more disclosure about directors. Something I particularly appreciate is increased disclosure around transactional relationships between directors and the company. In certain cases, there might be some optic issues around how independent directors might be compensated by the company.

CSI: What sort of visionary advice would you give board members?

Yumi: The best advice I can give to board members is to tell them to talk to their investors directly. Don't just let the intermediaries carry the message.

We've had some challenges ourselves in speaking to directors. Most often we speak to the IR (Investor Relations) folks or general counsel. But I think that if you're a director who is really serious about your responsibilities, you should engage directly with a range of investors so that you can keep abreast of the concerns that they might have.

This type of communication is something that we strive for—to have our thoughts about good governance communicated. This is not necessarily about policies or regulations or codes, but is about good leadership by the board. We want to help present the shareholder's perspective so that boards can be better informed before making decisions on those issues. ■

EQUILAR

— AND —

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PARTNER TO IMPROVE
**CORPORATE
GOVERNANCE**

INDUSTRY LEADERS
JOIN FORCES
TO INCREASE TRANSPARENCY
IN THE AREA OF SAY-ON-PAY

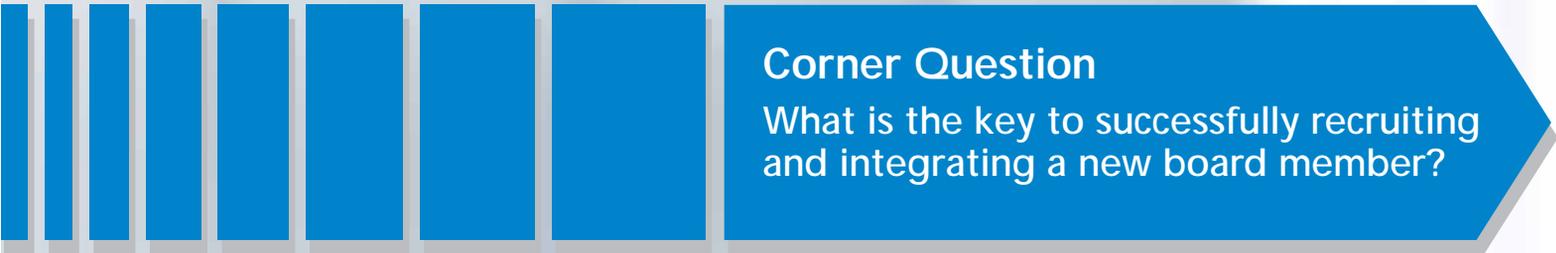
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CONSULTANT'S CORNER



Corner Question

What is the key to successfully recruiting and integrating a new board member?

See next page...



Curtis Crawford
CEO
XCEO

At XCEO, we believe the key to successfully recruiting directors starts before a search is initiated. The board and recruiting partner must first understand who we are looking for and why. This is not a simple task. Typical methods for assessing a board's needs are tired, ineffective and lack comprehensiveness. Without proper planning and execution in building the specifications, the resulting placement and director performance may not be the right fit and lacking valuable contributions.

We revolutionized that practice. We involve all board members in the process, which allows directors to anonymously weigh in on the level of skills and expertise he/she adds, the collective skills and expertise of the board and targets for specific skills and expertise that would be most valuable in the future. In aggregate, this provides a data-driven, director-provided composite defining the type of individual(s) for which we should be looking. Getting it right at the beginning should lead to optimal director selection.

Dr. Curtis J. Crawford is Founder, President and Chief Executive Officer of XCEO, Inc. He is the author of several books, including "The Manager's Guide to Mentoring."

Prior to founding XCEO, Dr. Crawford was President and Chief Executive Officer of Onix Microsystems, and also served as Chairman of ON Semiconductor Corporation. He's also served in C-Suite positions at Zilog, AT&T Microelectronics, and in the Microelectronics Group of Lucent. He began his business career as an IBM systems engineer.

Dr. Crawford received a BA and MA from Governors State University, an MBA from DePaul University, and his PhD from Capella University. Today, he sits on the Board of Directors at both DuPont and ON Semiconductor.



Corner Question

What is the key to successfully recruiting and integrating a new board member?



Julie Daum
 Managing Partner
 Spencer Stuart

Given turnover happens infrequently, the appointment of a new director is a good opportunity for the board to review the mix of skills and experience among current directors and identify any strategic gaps. Finding a candidate who combines the requisite expertise with financial and commercial acumen is important—whether it be an active CEO, retired executive or experienced division or subsidiary president. However, equally important is the individual’s cultural fit with the board, as well as their style of communication, their intellect and judgment. Boards should carefully define the role that the new director is expected to play, whether it is to chair a committee or serve as a sector or functional expert. A well planned, extensive director assimilation program is essential, and smart boards will address any gaps in the new director’s understanding of governance or the business through board education, site visits and meetings with the executive team.

Julie Hembrock Daum co-leads the North American Board & CEO Practice and serves on the board of directors of Spencer Stuart. She consults with corporate boards, working with companies of all sizes from the Fortune 10 to pre-IPO companies and has worked on more than 850 director assignments. Her recent work includes recruiting outside directors for Coach, Delta Air Lines, General Motors, Hyatt Corporation and State Street Corporation.

A recognized expert on governance topics, Julie helped found and develop the Wharton School’s Corporate Governance: Fresh Insights and Best Practices for Directors program and is regularly quoted in *The New York Times*, *Financial Times*, *BusinessWeek*, *Time Magazine* and *The Wall Street Journal*. She is also the co-author of the recent business book *You Need a Leader—Now What? How to Choose the Best Person for Your Organization*.

She has been selected as one of the 50 Most Influential People in Governance by NACD/Directorship Magazine every year since its inception and Crain’s New York Business named her one of the 100 Most Influential Women in New York.

Prior to joining Spencer Stuart, Julie was the executive director of the corporate board resource at Catalyst, where she managed all board of directors’ activities and worked with companies to identify qualified women for their board. A graduate of the Wharton

School at the University of Pennsylvania with an M.B.A. in corporate finance, Julie began her career as a consultant with McKinsey & Company in Los Angeles. She serves on the board of directors of Citymeals on Wheels and as a commissioner for the Women’s Refugee Commission.

SpencerStuart



Ted Dysart
Vice Chairman
Heidrick & Struggles

Getting culture right is the most important part of recruiting a new board member. While many boards focus on the requisite hard skills needed, too many people overlook the importance of a true “fit” with the existing board dynamic. That is not to say that you should recruit directors who “go along to get along.” Rather, boards should focus on finding individuals who understand the tone around the table and know when to ask questions, when to push and how to manage by influence.”

Once you’ve found that person it is crucial that you invest adequate time up front to educate them about the business and to foster and encourage strong relationships with the management team, as well as colleagues from around the board room table. While it may seem like a burden at the beginning it will undoubtedly pay dividends in the long run.

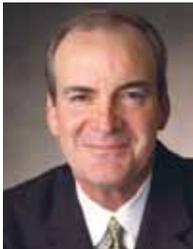
Theodore L. Dysart is a Vice Chairman with Heidrick & Struggles where he is a leader in the Global Board of Directors Practice and an active member of the CEO search practice. Ted is responsible for senior-level executive search assignments and is a functional specialist at Heidrick & Struggles, working exclusively on board, CEO and succession planning engagements. He has placed more than 500 executives on the boards of Fortune 500, mid-cap and private companies. BusinessWeek ranked him as one of the 150 most influential head hunters in the world, Executive Search Review named him one of six “executive recruiters to watch” in 2004. In 2007, 2008, 2010 and 2011, he was named to the Directorship 100, a listing of the most influential individuals in corporate governance by Directorship magazine. In 2011, he was named to the list of “Rising Stars of Corporate Governance” by the Millstein Center for Corporate Governance and Performance at Yale University.

Serving as a board- and CEO-level advisor, Ted helps clients to identify and attract the proper mix of leadership required for building and managing effective businesses. His consultative-driven approach focuses on working with boards to look at long-term development plans for both management and board succession planning.

Prior to joining Heidrick & Struggles, he was a Vice President with The Directorship Search Group, a consulting firm that specialized in corporate governance consulting and board director searches. Earlier, he worked for WIN Enterprise, Inc., a member of the WIN Group. The WIN Group was ranked as *Inc.* magazine’s 14th fastest growing private company in 1993.

A graduate of Worcester Polytechnic Institute, Ted was a member of the first class to receive a bachelor’s degree in management information systems. He is active in civic circles and serves on the board of directors of the American Red Cross of Greater Chicago, WonderWork and The United States Navy Memorial.

HEIDRICK & STRUGGLES



TK Kerstetter
President
Corporate Board Member

A board member search has to start with an effective board evaluation or assessment of what a board's needs are. "If you don't know what you're searching for... then pretty much any candidate will do?" Going through the process of seeing what skill sets are represented on the board and what is needed to be an effective board is the first critical step to starting a board recruiting effort. Viable candidates can come from many sources: director referrals, search firms, board candidate databases, or diversity-based organizations created to help board diversity. Once on board, a new director should have a formal program that provides exposure to all key officers in addition to tutorials to get a board member up to speed on everything from strategic plans to market served. Assigning a new board member a mentor (another director that has the time and energy to answer questions and provide guidance) is a great way to help integrate a new board member into the fold.

TK Kerstetter is president of Corporate Board Member, an NYSE Euronext Company focused on corporate board thought leadership issues and governance trends. Headquartered in Nashville, Tennessee, Corporate Board Member publishes the industry leading Corporate Board Member magazine, in addition to managing a director and C-suite officer database, board research services, and an extensive events and conference education operation.

Currently, Mr. Kerstetter is the producer and co-host of "This Week in the Boardroom," a weekly on-demand web show filmed at the New York Stock Exchange and also authors "The Board Blog" for corporate directors. In 2011 Mr. Kerstetter spear-headed the launch of the Board Education Program, in conjunction with NYSE Euronext, which provides corporate secretaries, general counsel, and board leadership with critical updates and high-caliber content offered through a variety of live and online events.

A graduate of Indiana University of Pennsylvania and Harvard Business School Advanced Management Program, he previously served as president and director of the \$2 billion publicly-held Wilmington Savings Fund Society spanning a 20 year banking career.

Mr. Kerstetter has appeared on both CNBC and Fox Business News addressing Corporate Board Member's annual "What Directors Think" research and various board trends. His director and board governance articles have been highlighted in numerous publications, and he has conducted over two hundred speeches and presentations for national and state associations, public and private companies, and governance-related or banking organizations.



INTERVIEW WITH **MATTHEW LEPORE**

Matthew Lepore is Pfizer's Corporate Secretary and Chief Counsel of the Corporate Governance Department. He assumed the role of Chief Counsel in December 2008 and was elected Corporate Secretary by Pfizer's Board of Directors in December 2010.

He heads the group responsible for working with institutional investors on a variety of governance issues to facilitate an open dialogue between the Company and its shareholders. In this role, he works closely with the President and CEO, Chairman of the Board, General Counsel and other Senior Leadership on SEC and NYSE matters, emerging trends and practices in corporate governance, board related issues, global corporate financings/capital raising, M&A, pension fund and general corporate matters.

In addition, a significant portion of his duties are spent working with the Board of Directors at and in preparation for Board meetings, as well as the meetings of several Board Committees. He also has oversight of Shareholder Services, as well as all of Pfizer's Corporate Policies and Procedures. He is responsible for Pfizer's Records and Information Management function as well, and he also has management responsibility for portions of the Aviation Department.

Finally, as a member of the Legal Division's Executive Leadership Team and the Pfizer Legal Alliance (Pfizer's innovative outside counsel program) Steering Committee, he works broadly across the Division on various initiatives outside of the Governance Department.

He also works with The Aspen Institute's Corporate Values Strategy Group, he is an Advisory Board Member for the RAND Center for Corporate Ethics and Governance.

"MY JOB SEEMS TO CHANGE EVERY WEEK SINCE I'VE BEEN AT PFIZER"



C-Suite Insight: Let's start by talking a bit about your conversations with investors. What's their substance? What's their focus?

Matt: We have an extensive outreach effort at Pfizer, and we strive to be proactive in our communications with investors. The substance and focus can vary widely, but keeping in touch allows us to keep a pulse on hot-button issues as they emerge in the investor community. To keep the doors of communications open, I speak regularly with our institutional investors, both large and small, and also with several retail investors on a number of issues. The discussions are all related to governance topics, such as the board's composition, including diversity, and at times, board members specifically. Investors are also interested in the board's leadership structure, its involvement in risk oversight, political spending decisions and compliance issues. There are many discussions about executive-pay decisions and

disclosures, which I conduct regularly in partnership with members of our executive compensation team.

CSI: Do you find that there's a difference in concerns between larger institutional investors and smaller investors?

Matt: Most investors want to discuss executive compensation, but the way we go about the conversation can be very different. Our smaller investors tend to focus on the amount, whereas our larger investors are more interested in the pay-to-performance link, peer company comparisons and short-and long-term performance metrics. Our smaller investors are also interested in dividends, the status of our stock repurchases and the stock price. When these concerns arise, I respond to them in coordination with our Investor Relations team. Institutional investors typically raise these questions through their analysts directly to our

Investor Relations team. These topics are generally not raised by the governance professionals with whom I regularly engage.

CSI: How has your job changed in the last two or three years?

Matt: My job seems to change every week since I've been at Pfizer. For example, a few months after I joined the company in 2009, we had a negative vote on a shareholder's Say on Pay resolution. In response, we adopted Say on Pay voluntarily, and had an extremely high vote the following year. After that we had a very low vote, and found this was in direct response to our departing CEO's package and not in response to the overall plan. In 2012, once again, we had a very high vote.

Other changes also occurred. We acquired Wyeth in 2009 and we had a board leadership change following the departure of our Chairman and CEO in 2010. More recently, we announced the sale of our

Nutrition business and that we anticipate filing a registration statement with the SEC for the potential IPO for our Animal Health business. As you know, we also have seen significant legislation and regulatory change in the governance arena over the last few years.

So we've seen a lot of change and it's been fascinating, interesting and dynamic.

CSI: How has Dodd-Frank affected you?

Matt: We've seen a lot of new disclosure related to board leadership structure, board involvement in risk, board skill sets and board diversity. Now we've got new disclosures coming out related to compensation committees and compensation consultants.

This means there has been a lot of change related to what we put in our proxy statement and there's also been a significant change related to the outreach to investors. I'm fortunate to work at a company that has led the way with respect to conversations with investors, and sound governance practices. My predecessor did it long before it became the thing to do.

So we've been engaging with investors for years and years. Now that we have to do it as a result of mandatory Say on Pay under Dodd-Frank, it's easy for me. So Dodd-Frank actually hasn't resulted in a huge change for us.

CSI: How much of the increased disclosure is actually new information versus simply telling your story better?

Matt: It's really both. Thoughtful disclosures that provide a clear and logical narrative are important. Taking the new skills set disclosures as one example - the process itself has allowed us to focus on providing succinct and essential details without going overboard with too much disclosure. We strive to be mindful of our investors' needs and time limitations. Our ultimate goal is to make sure that we've told our story accurately and that our investors have the right information to make an informed voting decision, and to enable our shareholders to see our directors as "real" by making them more than just a few words of boilerplate.

CSI: And what's your current view of Say on Pay?

Matt: It's something that initially I was not thrilled with and didn't see the need for at Pfizer. Specifically, I was not happy with the idea of mandatory annual Say on Pay vote. Yet Pfizer went ahead and adopted it voluntarily, and I stand by that decision. I think it was right for us based on what we heard from our shareholders and considering the vote on the resolution in 2009, but I don't think it's necessarily the kind of thing that needs to be mandatory at every company. We've engaged with our investors for many years and Say on Pay gives us additional data to consider. So far, it hasn't reduced our engagement, which was my fear. Having said that, the conversations that we're having with our investors about pay also led to discussions about board composition and political activity. So we're getting all this additional feedback as a result.

CSI: Does it give you another opportunity to explain things rather than it being a more adversarial process?

Matt: Yes and no. Even two years ago when we



MY CONCERN IS THAT SAY ON PAY BECOMES SO OVERWHELMING

had a low Say on Pay vote, we were able to talk to investors, explain our position, and gain a lot of their support. This is because we're able to give context. These conversations are incredibly helpful, but as I said earlier, I would have had all those conversations even if there weren't Say on Pay legislation, so I do not attribute the increased engagement to mandatory Say on Pay.

CSI: So the legislation is not particularly helpful to you...

Matt: My concern is that the Say on Pay vote becomes so overwhelming for investors that they no longer can give me an hour of their time to talk about Pfizer specifically. I worry that because of time constraints or resource limitations, they'll just vote their gut reaction, or simply follow a proxy advisory firm's recommendation, which would have the opposite result of what I think was meant by the legislators that

passed Dodd-Frank. Clearly, they wanted more dialogue between companies and investors. My concern is the opposite could result.

CSI: Switching to political contributions, how has Citizens United affected Pfizer?

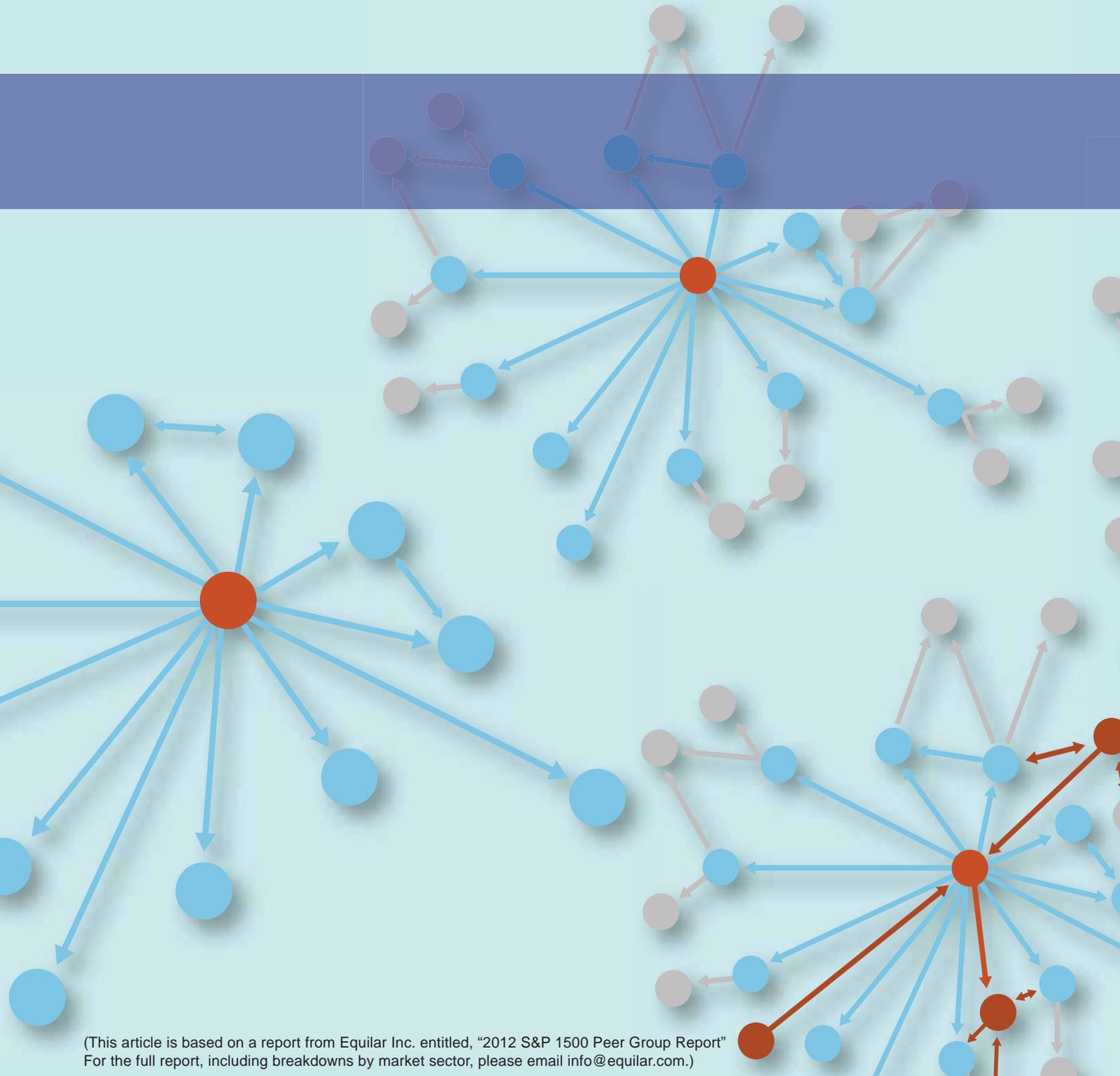
Matt: Citizens United hasn't changed much for Pfizer. We didn't make direct independent expenditures before the decision, and afterwards we formalized this practice into a company policy.

But it has upped the dialogue and made this an issue for certain investors so I participated on The Conference Board's Committee on Political Spending to develop a handbook that's meant to educate investors about the complexities of corporate political spending, pros and cons of disclosures, including disclosures around trade associations, lobbying expenditures and policies, and all of the various issues that are in play.

CSI: Finally, what is the board's insight into shareholder feedback?

Matt: There's not a board meeting that goes by that I don't provide an update to the board concerning shareholder feedback. It's also our practice to prepare a quarterly report that summarizes the investor feedback we receive whether by email or letter, for the Corporate Governance Committee. We appreciate investor engagement on governance issues. Our investors really do help us to ensure that we have a good governance structure in place.

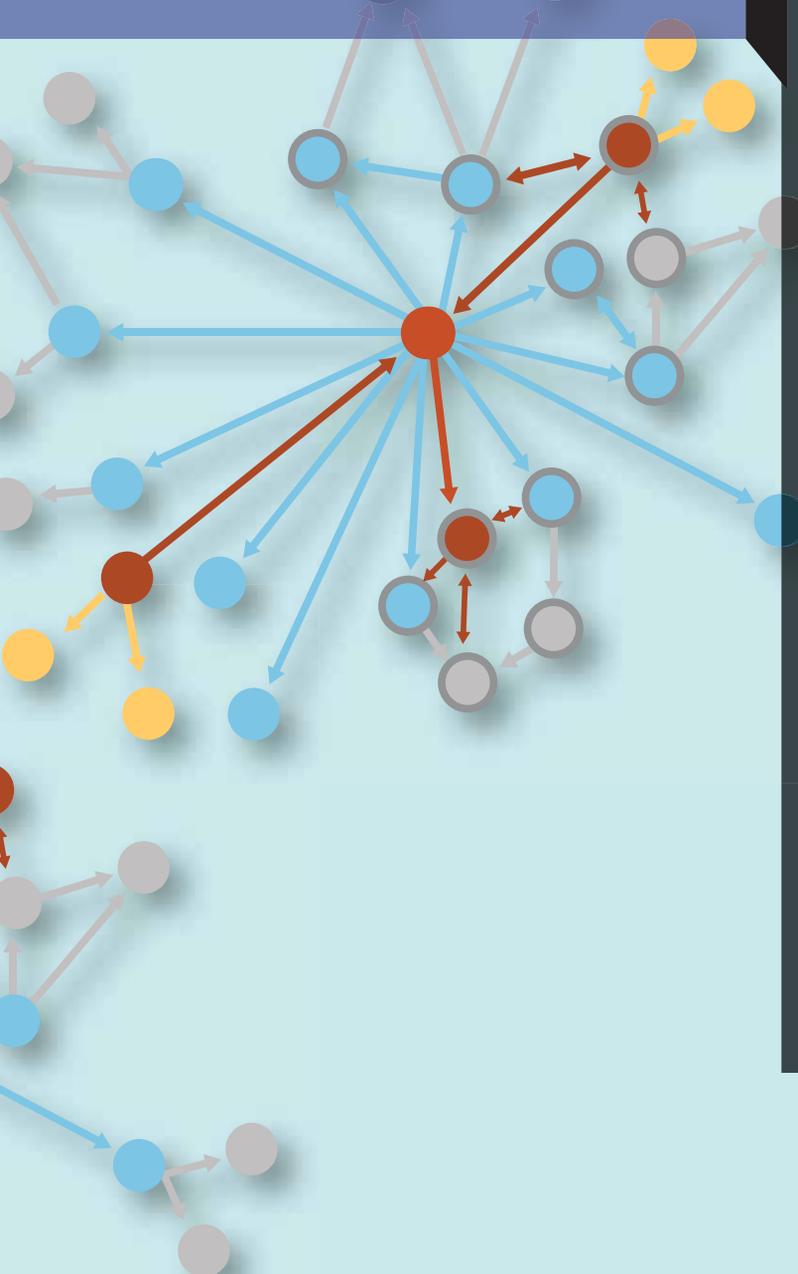
We do take their recommendations to heart, and if you look at our governance practices, you can see real changes that have been made related to our special meeting provision, executive compensation program, and corporate political contributions disclosures and policies. Many of these changes are a result of conversations we've had with our investors. 



(This article is based on a report from Equilar Inc. entitled, "2012 S&P 1500 Peer Group Report"
For the full report, including breakdowns by market sector, please email info@equilar.com.)



PEER GROUP



S&P 1500 PEER GROUP REPORT – 2012

ONE OF THE foundational practices in compensation plan design is the benchmarking of pay against a peer group of companies. Therefore, establishing a relevant peer group to compare executive pay against is one of the most important and challenging tasks for compensation professionals. Many factors are considered when developing an appropriate group of peers including financial performance, company size, industry, competition for talent and phase of business.

The SEC requires the disclosure of peer companies in annual proxy filings, and companies typically also include details regarding the peer selection process. In the age of Say on Pay, companies benefit from clear peer disclosure, including justification for why they consider their chosen companies to be peers. The peer selection process must be capable of withstanding scrutiny from shareholders and proxy advisory firms alike. Shareholders look to company proxies for justification of selected peers, especially in cases where advisory firms and issuers use different groups to determine alignment of pay with performance.

To study the mechanics of how companies select peers, Equilar used its Peer Group Dashboard to examine the peer groups of S&P 1500 companies. This analysis compares the percentile rankings of companies against those of their disclosed peers on a variety of factors including revenue, cash compensation, and total direct compensation.

Equilar's 2012 S&P 1500 Peer Group Report is intended to help compensation professionals stay ahead of peer-group related concerns. This report reviews the current landscape of peer group determination, highlighting some of the best practices among America's largest companies. In addition, the 2012 Peer Group Report addresses several key questions that compensation professionals may be asking as they review their own peer groups for the upcoming fiscal year.

KEY FINDINGS

- The majority of peer groups consist of 11 to 20 companies. A total of 57.3 percent of peer groups in the S&P 1500 included 11 to 20 companies. The average number of companies in an S&P 1500 peer group was 17, while the median was 16.
- The most commonly utilized peer criteria is industry. In the S&P 1500, industry was chosen as a peer group determination criterion by 67.9 percent of companies.
- Most companies had peers in the same industry. A total of 56.5 percent of S&P 1500 companies used peer groups in which 80 to 100 percent of companies selected as peers were in the same industry as the selecting company.
- S&P 1500 companies select peers with larger revenues. Among the S&P 1500, 78.9 percent of companies had revenues equal to or below the 60th percentile of their peer group. The average revenue rank was the 43rd percentile, while the median revenue rank was the 42nd percentile.
- S&P 1500 companies had pay packages smaller than that of their peers. The median S&P 1500 CEO’s total direct compensation and total cash compensation ranks were at the 45th and 47th percentiles, respectively.
- Companies typically benchmark to one peer group. A total of 88.9 percent of S&P 1500 companies benchmarked to only one peer group.

WHAT DOES A PEER GROUP LOOK LIKE?

For fiscal 2011, 85.9 percent of companies in the S&P 1500 disclosed the firms included in their peer group. We found that larger companies were more likely to disclose their peers. 92.6 percent of S&P 500 companies disclosed their peers in 2011, while 87.5 percent of S&P 400 MidCap and 79.3 percent of S&P 600 SmallCap companies disclosed peers.

Of the S&P 1500 companies that disclosed peers, 72.5 percent made at least one change in the composition of their peer groups from the previous year. 68.3 percent of the S&P 500 companies made changes to their peer groups, while 73.9 percent of S&P MidCap 400 companies made changes. The S&P SmallCap 600 had the greatest percentage of companies that modified their peer groups, with 75.5 percent making at least one change from the previous year.

The accompanying tables list the ten most frequently referenced firms and the corresponding number of companies that benchmark to these firms, arranged by index.

| S&P 1500 | |
|-------------------------|-------------------|
| Company Name | No. of References |
| 3M | 62 |
| Johnson & Johnson | 58 |
| Eaton | 56 |
| Honeywell International | 53 |
| Pepsico | 53 |
| General Mills | 51 |
| United Technologies | 50 |
| Kellogg | 49 |
| Emerson Electric | 47 |
| Hershey | 47 |



PEER GROUP SIZE

The number of peers typically varies with company size. In general, larger companies have larger peer groups. However, some relatively large companies may choose to limit their peer group size. For example, a highly specialized company may have difficulty defining peer group companies due to the proprietary nature of its business.

For the S&P 1500, the average peer group size was 17, while the median was 16. 29.9 percent of companies disclosed between 16 and 20 peers. Only 11.1 percent of companies disclosed a peer group that had 21 to 25 peers, while 3.3 percent of companies featured peer groups with more than 40 peers. 57.3 percent of S&P 1500 companies had peer groups including 11 to 20 firms.

By breaking-out the S&P 1500 into the S&P 500, S&P 400 and S&P 600 illustrates that peer groups of S&P 500 companies generally contain more peers than those in other indices. The average peer group size was 20.1 firms for the S&P 500, 18.0 firms for the S&P 400, and 14.7 firms for the S&P 600.

The median number of firms per peer group was 17, 16, and 14, respectively. The most common range of peers in the S&P 500 and S&P 400 was 16 to 20, while the most common range in the S&P 600 was 11 to 15. In the S&P 400 and S&P 600, there were more companies with peer groups of 21 to 25 peers than there were with peer groups consisting of more than 25 peers.

PEER CRITERIA

Companies select peers based on a wide variety of factors including industry, company size (as defined by revenue, market cap, assets, or employees), business model and competition over talent. Peer group determination may involve consideration of whether a potential peer is relatively new or well established, or whether common competitors exist.

After industry (67.9 percent), the most common criteria disclosed as peer group determinants were revenue and market capitalization (53.2 percent and 37.0 percent, respectively). Some of the least used criteria were talent, profitability, and number of employees.

S&P LargeCap 500

| Company Name | No. of References |
|-------------------------|-------------------|
| 3M | 59 |
| Johnson & Johnson | 56 |
| Pepsico | 51 |
| Honeywell International | 49 |
| United Technologies | 47 |
| General Mills | 46 |
| Kellogg | 45 |
| Procter & Gamble | 45 |
| Caterpillar | 42 |
| Eaton | 42 |
| Emerson Electric | 42 |

S&P MidCap 600

| Company Name | No. of References |
|---------------------------|-------------------|
| Flowserve | 24 |
| Ametek | 20 |
| Donaldson | 20 |
| Timken | 20 |
| Spx | 19 |
| Abercrombie & Fitch | 18 |
| Dover | 18 |
| Coach | 17 |
| American Eagle Outfitters | 16 |
| Cooper Industries | 16 |
| Equifax | 16 |
| Ilex | 16 |
| Salesforce.Com | 16 |
| Thomas & Betts | 16 |

S&P SmallCap 600

| Company Name | No. of References |
|-----------------|-------------------|
| Graco | 23 |
| Ilex | 18 |
| H.B. Fuller | 17 |
| Coherent | 16 |
| Cymer | 16 |
| Curtiss Wright | 15 |
| Hexcel | 15 |
| Kaman | 15 |
| Mks Instruments | 15 |
| Robbins & Myers | 15 |

THE PRIMARY PURPOSE OF DEVELOPING A PEER GROUP IS TO DEFINE A SET OF COMPANIES AGAINST WHICH TO COMPARE COMPENSATION LEVELS.

Companies often choose peers within their own industry. In 2011, the most common criterion used when selecting peers by S&P 1500 companies was industry. While other factors may be considered in the peer group development process, focusing on industry in peer determination is logical considering companies within a particular industry typically compete for talent, not just revenue.

For fiscal 2011, an average of 75.1 percent of all peers belonged to the same industry as the benchmarking company. The median percentage of peers in the same industry was 87.5 percent. 56.5 percent of S&P 1500 companies used 80% to 100% of their peers within their own industry, while only 6.4 percent used 0% to 20% of their peers within their own industry.

The second most prevalent criterion used in the peer determination process is revenue. As the most commonly used indicator of company size, revenue is often cited alongside industry in peer group disclosure as companies typically use these two criteria in conjunction to develop a group that includes similarly sized peers within the same industry.

To identify how companies use revenue as a metric for selecting peers, Equilar compared each company's revenue to that of its chosen peers. The percentile rank represents the relative position of the company within its peer group. For example, a company at the 50th percentile revenue rank would have a peer group in which half of its peers have lower revenue and half have higher revenue.

A majority of S&P 1500 companies targeted the middle of their peer group's revenue range, with a slight tendency toward benchmarking against firms with higher revenues. Of the companies analyzed, 31.9 percent had revenues within the 40th and

60th percentiles of their peer group. 30.7 percent were in the 20th and 40th percentiles of their peer group.

In comparison, 16.5 percent of companies had revenues between the 60th and 80th percentiles of their peer group. 79.0 percent of the companies analyzed had revenues that were below or equal to the 60th percentile. The median ranking of a company's revenue versus its peer group was the 42nd percentile, while the average ranking was the 43rd percentile. 63.1 percent of peers had revenues that fell within 0.5 to 2.0 times the company's revenue, a common rule of thumb for determining relevant peers.

PRIMARY PURPOSE

A look at CEO total direct compensation (TDC) at S&P 1500 companies reveals that companies generally target pay at the middle of their peer group. The most common percentile range was the 40th to 60th percentile, which accounts for 22.7 percent of companies.

The second most common percentile range was the 20th to 40th percentile, with 22.4 percent of companies. The higher prevalence of companies in the 0 to 40th percentile range (39.7 percent of companies) compared to the 60th to 100th percentile range (29.9 percent) indicates that most companies had smaller pay packages than the firms they determined to be peers. In fact, the median and average TDC percentile ranks both were below the 50th percentile, with the median at the 45th percentile, and the average at the 46th.

The primary purpose of developing a peer group is to define a set of companies against which to compare compensation levels. Compensation professionals must achieve a fine balance in order to compensate executives sufficiently to retain top talent, while preventing criticism from shareholders, advisory firms and media outlets. **C**



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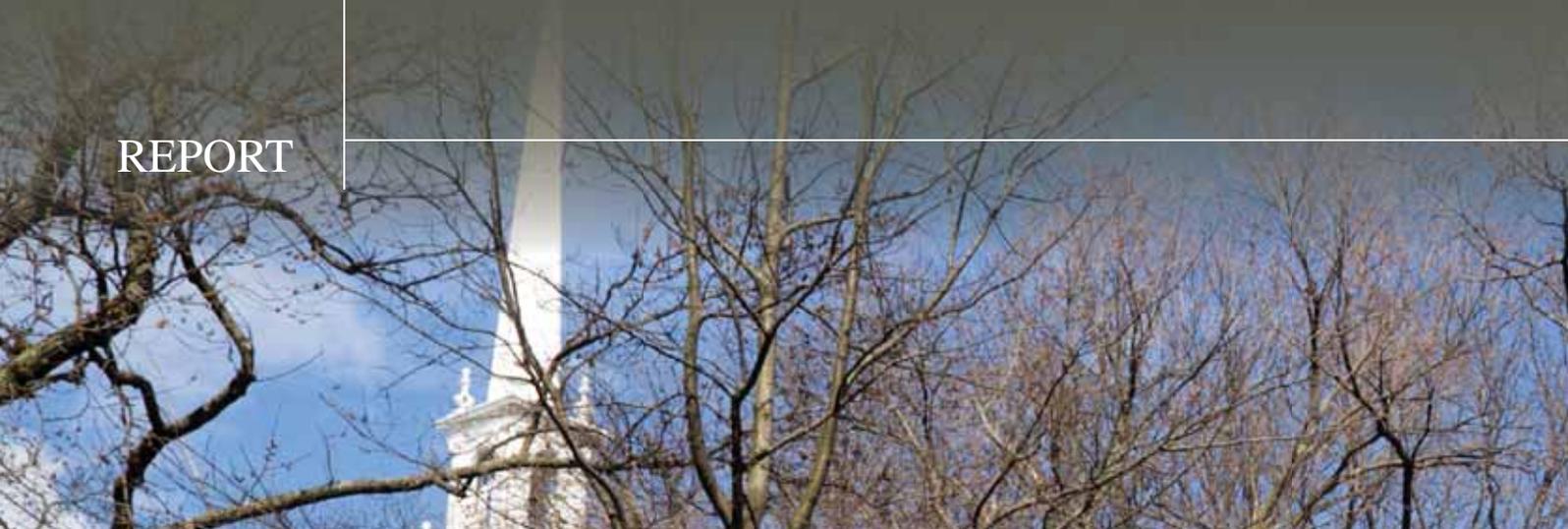
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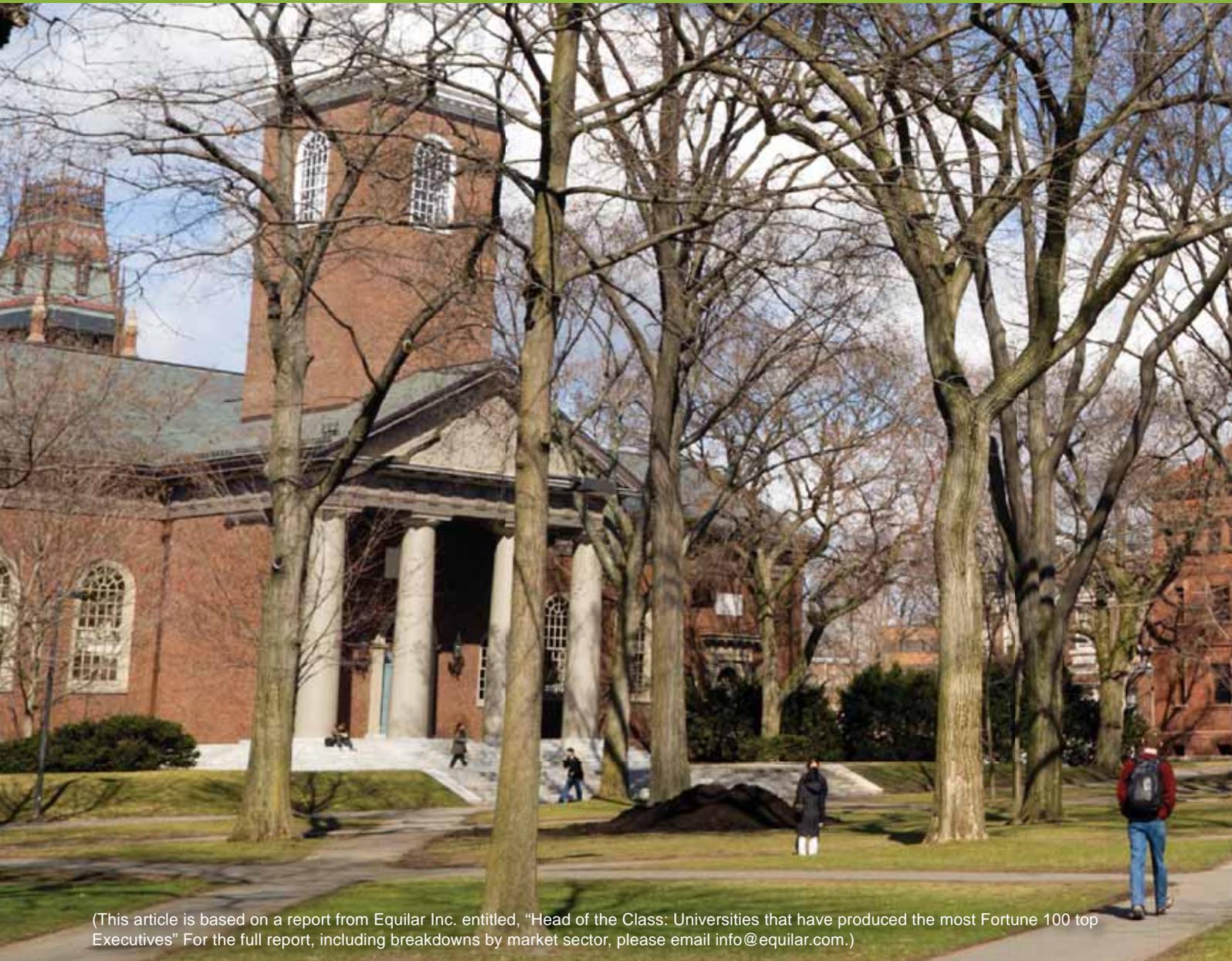
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REPORT

HEAD OF THE CLASS



(This article is based on a report from Equilar Inc. entitled, "Head of the Class: Universities that have produced the most Fortune 100 top Executives" For the full report, including breakdowns by market sector, please email info@equilar.com.)



REPORT

WHICH UNIVERSITIES PRODUCE THE MOST FORTUNE 100 TOP EXECUTIVES?

E DUCATION HAS ALWAYS been considered an important factor in the professional success of an individual. In order to find out more about influential leaders at Fortune 100 companies, Equilar recently compiled educational background information for executives at these firms.

The purpose of this analysis was to find out if attending certain undergraduate universities made it more likely for an executive to become a top executive at a large U.S. corporation.

KEY FINDINGS:

- Princeton University topped this year’s list with 13 executives, followed closely by Cornell University with 10 executives, University of Michigan and Harvard University came in tied for third with 9 executives each;
- Almost 300 undergraduate universities were represented by at least one executive;
- When aggregated by athletic conference the Ivy League came out on top with 56 executives followed closely by alumni of the Big Ten schools with 46 executives; Equilar provides leading executive compensation and board room connection data to more than 1,200 clients. Equilar Atlas clients are able to leverage our database of more than 300,000 top executives and board members to assist in fundraising and business development efforts.

METHOD

In 2012, Equilar tracked a total of 523 executives at Fortune 100 companies.

The executives we examined are the top named executive officers (NEO) at these companies. Named Executive Officer is the general term for the executives for whom companies are required to publicly disclose compensation data, typically the CEO, CFO, and the three highest paid officers.

Over 90% of these executives disclosed their undergraduate education. That does not mean that the remaining 10% did not attend an undergraduate university, only that they did not disclose their undergraduate degrees.

Princeton University topped this year’s list with 13 executives, followed closely by Cornell University with 10 executives, University of Michigan and Harvard University came in tied for third with 9 executives each.

Almost 300 undergraduate universities were represented by at least one executive, including more than 20 international universities.

The accompanying table shows the top 23 universities that had 4 or more alumni listed as top executives at Fortune 100 companies.

Larger universities with enrollments of 30,000+ could have an advantage over smaller universities due to the sheer number of students graduating each year but on a per capita basis these smaller schools are well-represented in the corporate board room. Colgate University, with an enrollment of only 2,900 students, has 4 alumni that serve as top executives. ©

| Rank | University Name | Number of Executives |
|------|---|----------------------|
| 1 | The Ivy League | 56 |
| 2 | Big Ten Conference | 46 |
| 3 | Big East Conference | 31 |
| 4 | Big 12 Conference | 30 |
| 5 | Pac-12 Conference | 24 |
| 6 | Atlantic Coast Conference / Southeastern Conference | 16 |
| 8 | Atlantic 10 Conference / Patriot League | 13 |
| 10 | Mid-American Conference / New England Small College Athletic Conference | 11 |

Athletic conferences ranked by alumni listed as top executives at Fortune 100 companies



Universities that had 4 or more alumni listed as top executives at Fortune 100 companies

| Rank | University Name | Number of Executives | Athletic Conference | Public or Private |
|------|---------------------------------------|----------------------|---------------------------|-------------------|
| 1 | Princeton University | 13 | The Ivy League | Private |
| 2 | Cornell University | 10 | The Ivy League | Private |
| 3-T | University of Michigan | 9* | Big Ten Conference | Public |
| 3-T | Harvard University | 9 | The Ivy League | Private |
| 5-T | Pennsylvania State University | 8 | Big Ten Conference | Public |
| 5-T | Stanford University | 8 | Pac-12 Conference | Private |
| 5-T | University of Pennsylvania | 8 | The Ivy League | Private |
| 8-T | University of Notre Dame | 7 | Big East Conference | Private |
| 8-T | Yale University | 7 | The Ivy League | Private |
| 10 | University of Missouri, Columbia | 6 | Big 12 Conference | Public |
| 11-T | University of Texas | 5** | Big 12 Conference | Public |
| 11-T | Purdue University | 5 | Big Ten Conference | Public |
| 11-T | University of Minnesota | 5 | Big Ten Conference | Public |
| 11-T | Indiana University | 5 | Atlanta 10 Conference | Public |
| 15-T | University of Dayton | 4 | Atlantic Coast Conference | Public |
| 15-T | University of North Carolina | 4 | Big 12 Conference | Public |
| 15-T | Texas A&M University | 4 | Big East Conference | Public |
| 15-T | University of Pittsburgh | 4 | Big Ten Conference | Public |
| 15-T | University of Illinois | 4 | Big Ten Conference | Public |
| 15-T | University of California, Los Angeles | 4 | Pac-12 Conference | Public |
| 15-T | Colgate University | 4 | Patriot League | Private |
| 15-T | University of Kentucky | 4 | Southeastern Conference | Public |
| 15-T | Dartmouth College | 4 | The Ivy League | Private |

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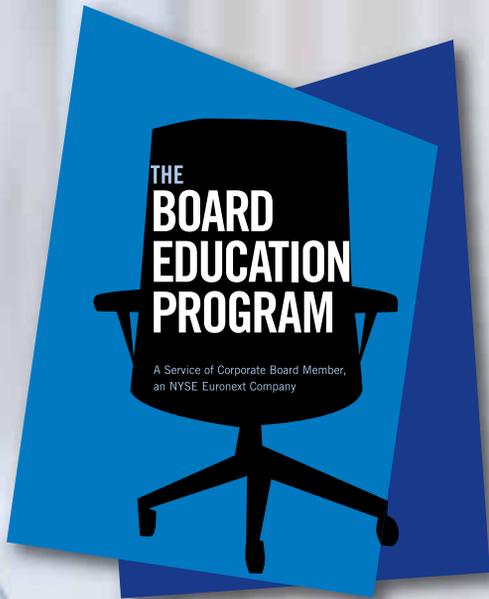


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