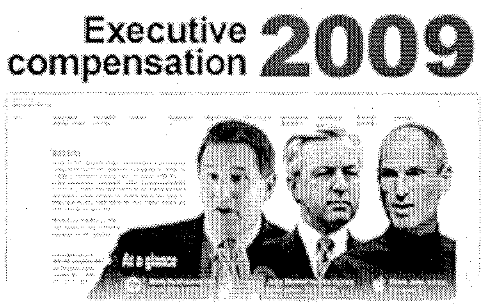
Docket No. UE-100749
Exhibit No. ______
Page 1 of 3

USA TODAY

USA TODAY analysis: Many CEOs took a pay cut in 2009

Updated 4/4/2010 8:21 AM

By Matt Krantz and Barbara Hansen, USA TODAY



Median pay of CEOs at large firms last year was $6.6M, down 18% from 2008, according to a USA TODAY analysis of data from The Corporate Library.

If you've gotten laid off, been furloughed or taken a pay cut, here's something that might give you a little solace: Your CEO most likely took a hit, too.

Despite their reputation for reaping princely sums that seem to rise year after year, CEOs took a pay cut in 2009, and a big one at that.

SORTABLE LIST: CEOs' 2009 pay, bonuses, benefits

And last year's pay cut in the executive suite came after CEOs saw their total compensation fall in 2008, too. Back-to-back annual pay cuts probably aren't what CEOs imagined they had to look forward to just a few years ago.

All this means that while it continues to be a hot-button issue that's debated by everyone from President Obama to the local card club, CEO compensation, at least in 2009, is reflecting a greater scrutiny over what the people at the top are getting paid.

"Retrenchment. That's indicative of the financial climate," says Dan Nielsen of shareholder adviser Christian Brothers Investment Services.

Some CEO pay experts suspect that since boards of directors are less chummy with the CEOs, they're willing to hold down pay at least at some of the largest companies. Others wonder if public attention on what the CEO is paid is, at least for now, encouraging restraint.

Whatever the reasons, the numbers speak for themselves. The median pay of CEOs at large companies last year was $6.6 million based on the value of pay the day it was received, a drop of 18% from 2008, according to a USA TODAY analysis of data provided by independent corporate governance research firm The Corporate Library. Nearly two-thirds of CEOs took a pay cut in 2009.

The analysis looked at 121 S&P 500 companies that filed proxies this year that were processed by The Corporate Library by March 24. Some companies that filed their proxies prior to March 24 may not be included due to time needed to process the reports. USA TODAY also found from The Corporate Library's data that CEO:

•**Base salaries are essentially flat.** CEOs were paid a median salary — half got more, half less — of $1.01 million in 2009, vs. $1.0 million in 2008.

•**Stock and options took a big hit.** CEOs' biggest windfall usually comes from stock and options. The

USA TODAY

median value of those payments fell 29% to $3.7 million, making it the biggest reason for the decline in total CEO pay.

•**Perks and other compensation are down.** "Other" pay received by CEOs, which typically includes things like country club memberships and use of the company jet, fell 28% in 2009 to a median of $125,198.

Still, all is not sad in CEO land. For one thing, thanks to the stock market's rally, most CEOs can expect big gains in the future from stock awards they received last year. Meanwhile, cash bonus and incentive payments — which companies' boards of directors use to reward CEOs beyond their salaries — climbed 9%.

"It could have been a decision by boards that, 'We set hard targets, but did well in a hard time, so go ahead and give ... bonuses,'" says Paul Hodgson of The Corporate Library.

Still, in some respects, investors might think they got a bargain. While CEO pay fell in 2009, the S&P 500 index rose 26.5% during the year, including dividends, while profits at S&P 500 companies rose 14.8%, S&P says. Of course, the stock market and corporate profits had a horrific year in 2008, so both were rebounding off depressed levels.

Also, using The Corporate Library's more strict approach to measuring CEO pay, which measures the value of money they actually pocketed, CEOs received even less, with median pay of $5.1 million, down 12% from 2008.

But given the pain the rank-and-file suffered in 2009, seeing a double-digit pay cut to multimillion-dollar CEO pay packages offers little comfort.

"Some people will be disappointed if they expected that if the economy is so terrible, CEOs should not be paid anything," says Alan Johnson of executive pay consulting firm Johnson Associates.

A look at the specifics

Summary data tell only part of the complex tale. For example:

•**Big payouts still exist.** Mark Hurd, CEO of Hewlett-Packard, was the top paid in the 121 companies with 2009 compensation valued at $24.2 million.

Hurd's pay fell 29% in part due to a 13% base salary reduction to $1.3 million. However, he received more than $15 million from various cash incentive plans and bonuses, The Corporate Library says. Meanwhile, HP's investors did enjoy a 25% return in fiscal 2009.

But then there's AT&T, where the stock price fell 1.6% in 2009 and the total return to shareholders was 4.8%. Even so, CEO Randall Stephenson's total compensation rose 35% to $20.2 million.

•**Perks are under scrutiny.** When CEOs are paid millions, there's a question of why companies should pay for things like private club memberships.

There are signs of restraint here, too. Comerica CEO Ralph Babb received $202,928 in 2008 for club fees, more than any other CEO, says The Corporate Library, due mainly to an initiation fee. Last year, however, he only got $11,330. Meanwhile, Fifth Third Bank completely cut its club-membership program for executives going forward, although it will still pay dues from existing deals.

But perks remain. Despite making $20.5 million last year, Lockheed CEO Robert Stevens received $176,351 for home security systems.

Perks to CEOs sometimes blend business and pleasure. Micky Arison is CEO of Carnival and also owns the Miami Heat basketball team as well as the company that operates the American Airlines Arena where the team plays. Arison in 2009 received $123,714 for Heat tickets for personal use from Carnival. "It's unusual," says David Leach of executive compensation firm NIP-RCG, adding that

Docket No. UE-100749
Exhibit No. ________
Page 3 of 3

USA TODAY

perks and side payments to CEOs are under pressure. But the company did disclose the payment, he says. "At least ... they told us," he says.

•CEOs being more careful using the corporate jet. Use of the corporate jet has been attracting unwanted attention, Johnson says. Data on corporate jet usage for all of 2009 aren't available yet. But so far this year, it appears CEOs at some companies are using the jet less. Steve Jobs, CEO of Apple, was reimbursed just $4,000 for use of his private plane for company matters, down from $871,000 in 2008 and $776,000 in 2007.

At Ford Motor — one of the automakers criticized when CEOs flew to Washington, D.C., to discuss the industry's woes — CEO Alan Mulally received $127,699 for personal use of private aircraft in 2009, down from $344,109 in 2008. Aircraft usage by Coca-Cola CEO Muhtar Kent in 2009 was $130,930, down from $229,484 in 2008.

Not-so-independent consultants?

Companies still rely strongly on outside pay consultants, and some of the same firms that advise companies on how much to give CEOs are paid even more in lucrative contracts for other services to the same companies.

Weyerhaeuser, for instance, paid Mercer $277,782 during the year for advice on how much to pay its executives. It also paid the firm $2.3 million for insurance brokerage and other services connected with the company's pension plan. Similarly, Coca-Cola paid Towers Perrin $107,509 for help on executive compensation and then $4.2 million for other services. It also paid Watson Wyatt, which has since merged with Towers Perrin, $3.3 million for consulting work.

The companies say in their proxies that consultants maintain independence despite the other business relationships. But Richard Wagner of Strategic Compensation Research Associates says, "It clearly is a conflict." Much as audit firms may have looked the other way when examining the accounting of firms they also did consulting work for, the same risk exists with executive compensation firms, he says.

Some companies try to avoid such relationships. United Technologies, for instance, says it hires Towers Watson to provide data on what other CEOs are paid. But its proxy says if the company were to hire a consultant to help set pay levels, it would choose one "with no other material relationship with UTC."

Keeping tabs on public perception

Some companies were frank about the pay cuts, including U.S. Steel, where CEO J.P. Surma took the largest pay cut, 86%, outside of the financial sector.

Surma's salary was cut 20% starting July 1 at his suggestion, the company's regulatory filing says. U. S. Steel's board pointed out the CEO shouldn't be protected from belt tightening. "It was important for executive management to lead by example," the filing says.

The true test, though, will come this year, as many pay cuts in 2009 may have just been short term, says Kevin Murphy, professor of accounting at the University of Southern California. Advanced Micro Devices and Pfizer, for instance, instituted temporary salary freezes for executives in 2009, though both already lifted the freeze this year.

Boards of directors are aware of the population's sentiment against large CEO pay packages and have responded in 2009, Murphy says. But it's likely just a temporary vigilance, he says. "Just as with any populist revolt, when the economy turns around, no one pays attention to what CEOs are getting paid," he says.