The Office Of
State Treasurer
Denise L. Nappier

News

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Shareholders Support Nappier's Call for Annual Election of Directors at Nabors Industries in Response to Poor Executive Pay Decisions

Connecticut's Treasurer also votes "no" on director nominees and backs proposal for independent board chair

HARTFORD—Today at the Nabors Industries, Ltd. annual meeting in Houston, Texas, shareholders overwhelmingly approved a measure proposed by Connecticut State Treasurer Denise L. Nappier to require nominees to the board of directors to stand for election annually. The proposal was backed by major proxy voting services RiskMetrics, Glass Lewis and Proxy Governance and received the support of 74.8 percent of votes cast by shareholders at the meeting. Nappier also opposed the election of two nominees for board seats for poor pay practices and supported a resolution asking for an independent board chairman.

"We rely on the board of directors to represent our interests," Nappier said. "The current economic crisis has revealed board after board that miserably failed to execute their duty to act in the best interests of their corporations, often with dire consequences. Today, investors have spoken. Simply put, 'Enough is enough.'"

Nappier, principal fiduciary of the $23 billion Connecticut Retirement Plans and Trust Funds (CRPTF) and leading advocate for corporate governance practices that protect and enhance the long-term value of pension fund assets, introduced the resolution as part of a sustained effort to make boards of directors more accountable to shareholders for egregious executive pay decisions that may harm companies' bottom lines.

The current election requirements at Nabors permit each director to stand for election every three years, allowing shareholders to only vote on approximately one third of the board in any one year. If a board member is ineffective or incompetent, investors must potentially wait two or three years before challenging his or her performance with a vote "no." Currently, 59 percent of companies in the S&P 500—of which Nabors is a member—elect directors on an annual basis.

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Poor Pay Alignment.

The annual election resolution was filed at Nabors based on a review of the company's policies and practices used to determine pay granted to board Chairman and Chief Executive Officer Eugene M. Isenberg. While Mr. Isenberg's compensation was reduced considerably after his amended employment agreement went into effect in 2009 due primarily to changes in the formula used to calculate cash bonus payments, a significant portion of his pay remains based on short-term results versus long-term performance or is not linked to any discernible performance metrics altogether.

Severance arrangements for Mr. Isenberg also are problematic. The new employment agreement again reduced potential payments to Mr. Isenberg upon termination of employment; however, the 2010 proxy reports that Mr. Isenberg still stands to gain in excess of $160 million, including $100 million in guaranteed cash payments.

"As American families and small businesses struggle to survive in an environment poisoned largely by executives chasing short-term profits with complete and utter disregard for the long-term consequences, we must take a closer look at the perverse incentives that drove the most deplorable corporate behavior," Nappier said. "While we acknowledge that certain industries bear more responsibility than others, we simply cannot afford to overlook boards that lavish their CEOs with these flawed pay packages based on attendance and not performance. Shareholders are paying attention, and it's time for unresponsive boards to get a clue."

Vote "No" on Directors

Based largely on concerns about executive pay design and awards, the CRPTF opposed the election of John V. Lombardi and James L. Payne, the only two directors appearing on the ballot this year. Both directors sit on the board compensation committee, which approved Mr. Isenberg's pay package. Proxy voting agencies RiskMetrics, Glass Lewis and ProxyGovernance recommended clients withhold votes from the two nominees (similar to votes against) for poor pay practices. The directors also are targets of a Vote "No" campaign by the American Federation of State, County and Municipal Employees (AFSCME).

"The decision to withhold votes on director nominees is one of the most difficult we make as investors, and is reserved for total breakdowns in leadership" Nappier said. "Unfortunately, the Nabors board has proven itself a deserving candidate by twisting the pay for performance dynamic critical to effective compensation design. In America, we work hard for our paychecks. We only ask boards to require corporate management to do the same."

Other Proposals

Pursuant to CRPTF Domestic Proxy Voting Policies, the CRPTF also voted in favor of a resolution asking the board to require that the board Chairman be independent from management filed by AFSCME, a resolution to provide investors with an annual advisory vote on executive compensation filed by the Nathan Cummings Foundation, and a proposal asking the board to adopt superior performance standards for senior executives filed by the Massachusetts Laborers' Pension Fund.

Nabors is a major oil and gas land drilling contractor with operations throughout the world. The CRPTF owns 59,974 shares of Nabors valued at $1,102,922.

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